

Comprehensive Annual Financial Report



The York County School Division

County of York, Virginia

(A Component Unit of the County of York, Virginia)

***For the Fiscal Year
Ended June 30, 2004***

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The York County School Division

Component Unit of the County of York, Virginia

For the Fiscal Year Ended June 30, 2004

Prepared by the Department of Finance

Dennis R. Jarrett
Chief Financial Officer

Karen L. Hendricks
Senior Budget and Financial Analyst

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
June 30, 2004**

TABLE OF CONTENTS

PAGE

INTRODUCTORY SECTION

Letter of Transmittal	1 - 7
Certificate of Achievement for Excellence in Financial Reporting - Government Finance Officers Association	8
Certificate of Excellence in Financial Reporting - Association of School Business Officials	9
Organizational Chart	10
Members of the School Division and School Division Officials	11

FINANCIAL SECTION

Report of Independent Auditors	14 - 15
Management's Discussion and Analysis	16 - 30
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets – Governmental Activities	32
Statement of Activities – Governmental Activities	33
Fund Financial Statements	
Governmental Fund Financial Statements:	
Balance Sheet – Government Funds	34
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	35
Statement of Revenues, Expenditures and Changes in Fund Balances – Government Funds	36
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	37
Fiduciary Financial Statements:	
Statement of Fiduciary Net Assets	38
Statement of Changes in Fiduciary Net Assets – Pension Trust Fund - Optional Plan	39
Notes to Basic Financial Statements (The notes to the financial statements are an integral part of the basic financial statements)	42-59

Required Supplementary Information Other Than Management's Discussion and Analysis:	
Budgetary Comparison Schedule, General Fund - Revenues and Other Financing Sources	62 - 63
Budgetary Comparison Schedule, General Fund – Expenditures and Other Financing Uses	64 - 65
Schedule of Funding Progress for Defined Benefit Pension Plans	66
Notes to Required Supplementary Information	67 - 68
Other Supplementary Information:	
Budgetary Comparison Schedule, Capital Projects	70
Budgetary Comparison Schedule, Non-Major Special Revenue Funds	71
Statement of Changes in Assets and Liabilities – Agency Fund	72

STATISTICAL SECTION

General Fund Revenues by Source	73
General Fund Expenditures by Function	74
Government-Wide Revenues by Source	75
Government-Wide Expenditures by Function	76
Property Tax Levies and Collections for the County of York, Virginia	77
Assessed Value of Taxable Property for the County of York, Virginia	78
Property Tax Rates for the County of York, Virginia	79
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita for the County of York, Virginia	80
Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures for the County of York, Virginia	81
Demographic Statistics for the County of York, Virginia	82
Bank Deposits, Residential and Commercial Construction for the County of York, Virginia	83
Principal Property Taxpayers for the County of York, Virginia	84
Miscellaneous Statistics	85 -87

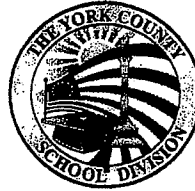
COMPLIANCE SECTION

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	90-91
Report of Independent Auditors on Compliance with Commonwealth of Virginia's Laws, Regulations, Contracts and Grants	92-93

INTRODUCTORY SECTION

THE YORK COUNTY SCHOOL DIVISION

DIVISION
SUPERINTENDENT
Steven R. Staples, Ed. D.



SCHOOL BOARD
Barbara S. Haywood
District 1
Linda S. Meadows
District 2
Mark A. Medford
District 3
R. Page Minter
District 4
Barrent M. Henry
District 5

November 28, 2004

YORK COUNTY, VIRGINIA

Citizens of York County and Honorable Members of the School Board of the County of York, Virginia:

The Comprehensive Annual Financial Report of the York County School Division (hereafter School Division), a component unit of the County of York, Virginia for the fiscal year ended June 30, 2004, is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the School Division. All disclosures necessary to enable the reader to gain an understanding of the School Division's financial activities have been included.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The School Division's MD&A can be found immediately following the report of the independent auditors.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and compliance. The introductory section includes this transmittal letter, an organizational chart and a list of principal officials. The financial section includes the MD&A, basic and fund financial statements, notes to the financial statements, required supplemental information (RSI) other than MD&A, as well as the independent auditor's report on the MD&A, financial statements and schedules. The statistical section includes selected financial and demographic information, presented on a multi-year basis, where possible. The compliance section includes reports by the independent auditor on compliance and internal control.

The School Division is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and questioned costs, and auditor's reports, is included in the County of York's Comprehensive Annual Financial Report.

The Reporting Entity and Organization

The School Division is responsible for elementary and secondary education within the County. The elected five member School Board, vested with legislative powers, appoints the Superintendent, the executive and administrative head of the public school division. The School Division is fiscally dependent (i.e., it does not have taxing, levying, or borrowing authority). It derives most of its funding from allocations from the County and the Commonwealth of Virginia. The County Board of Supervisors approves the School Division's operating budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of bonds when necessary. The Board of Supervisors is prohibited from exercising any control over specific appropriations within the operating budget of the School Division. However, the Board of Supervisors may exercise control in total by major categories (e.g., Instruction, Pupil Transportation) as prescribed by the Code of Virginia, as amended.

This report includes all funds of the School Division.

Accounting System

In developing and evaluating the School Division's accounting system, consideration is given to the adequacy of the internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the School Division's internal control structure adequately safeguards assets and provides reasonable assurance of the proper recording of financial transactions. The accounting system is organized and operated on a function basis. Each function, relating to a specific area of operation, includes a report of appropriations, expenditures, encumbrances, and fund balances for each line item appropriate for that function.

Budgetary Controls

The School Division maintains internal controls at a budgetary level. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the School Board and County Board of Supervisors. Activities of the General Fund and Special Revenue Fund are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Fund.

Economic Condition and Outlook

York County is located in the Atlantic Coast's "urban crescent" on the beautiful Virginia peninsula. Situated midway between Richmond and Virginia Beach, the county's residents help comprise one of the nation's largest metropolitan areas, commonly referred to as Hampton Roads. The area is fortunate to have an expanding commercial and industrial base, while also enjoying affordable and plentiful housing and a moderate cost of living. As members of the dynamic Hampton Roads community, York County citizens have at their fingertips a wide variety of personal, professional and leisure opportunities, including numerous colleges and universities, theme parks, historical areas and much more. During the year, population grew to more than 61,000 and both residential and commercial tax bases continued to expand. By the year 2006 school enrollment is expected to increase to 12,700 students, 337 more students than the fiscal year 2004 enrollment count.

Major Initiatives

In 2003-04, the York County School Division began work on or continued the expansion of several new initiatives that will help continue the tradition of excellence in York County:

The York County School Division continues to meet the academic requirements of the state, to maintain its own tradition of excellence, and to provide a well-rounded approach to education. The Division has fine-tuned existing academic programs, added new courses to the Program of Studies, consistently correlated its curriculum with the state Standards of Learning (SOL), and provided professional development opportunities that expand the experience and expertise of the Division's instructional staff. Highlights of 2003-04 curriculum and professional development efforts include:

◆ Community Survey

In December 2003, the school division commissioned a community opinion survey that was designed to gather information regarding satisfaction with division programs and initiatives and to determine the issues related to public education that our community believed to be the most important. The survey was conducted by an outside marketing research firm to ensure data was properly tabulated and analyzed. The survey results were very positive. Most respondents were either "satisfied" or "very satisfied" with the many aspects of the school division.

◆ Curriculum Development

The School Division's curriculum development effort is an ongoing process of development and review that emphasizes the Standards of Learning within a rich instructional program. Curriculum development provides descriptive and reliable guides for teachers and ensures that York County School Division students are taught in a manner that prepares them adequately for SOL tests. As new courses that broaden students' interests and guide them to meaningful and appropriate career paths are added to the *Program of Studies K-12*, curriculum is written for each of these courses. In addition, a comprehensive and user-friendly *Secondary*

Program of Studies Registration and Information Guide, containing all middle and high school courses as well as general academic information, is published to assist students and their parents in planning secondary school course work.

As part of the ongoing process of curriculum review, York River Academy Charter School was implemented in FY03 to provide an academic, social and career preparatory education in computer and web-based technology. The program serves students in the 9th and 10th grades that are at risk of not graduating. Students also have the opportunity to earn high school credit and verified credit towards graduation. The York River Academy better defines an at risk population to be served and therefore is able to better prepare these students as productive citizens in the community.

♦ Full Day Kindergarten

Full day kindergarten was implemented at all ten elementary schools.

♦ Magnet School

Phase II of a new Math, Science and Technology Magnet Program was implemented at Yorktown Elementary School. This school provides students the opportunity for in-depth, process-oriented study of math, science and technology.

♦ International Baccalaureate

The International Baccalaureate (IB) Program is a college preparatory course of study for academically talented students in Grades 11 and 12. This academic year saw dynamic growth for the International Baccalaureate (IB) Program. During the 1999-2000 academic year, the International Baccalaureate of North America (IBNA) fully accredited the IB Program at York High School. The class of 2002 was the first to graduate with an IB diploma from the York County School Division. A total of 19 students graduated from the rigorous IB Program in June 2004.

♦ Virginia Standardized Tests (Standards of Learning)

Standards of Learning (SOL) tests are administered to students in grades 3, 5, & 8, and students enrolled in certain high school courses. Beginning with the class of 2004, students will be required to earn a certain number of verified credits to be eligible for a standard or advanced high school diploma. Verified credits for graduation will be based on achievement by the student of a passing score on the required end-of-course SOL tests.

Based on spring 2003 SOL test results, the York County School Division had all elementary, middle, and high schools Fully Accredited. All York County Schools have achieved the state's highest accreditation ranking (Fully Accredited) in school years 2002 and 2003, a full two years before the School Board's deadline of 2004.

◆ Scholastic Aptitude Test (SAT)

The total combined mean of math and verbal scores on the SAT continue to be above the state and national level for York County School Division students.

◆ Virtual High School

The York County Virtual High School began in FY03 as a pilot to serve homebound and alternative education students. The goal of the Virtual High School is to offer anytime, anywhere education to all students in York County. Coursework offered on-line by qualified York County teachers provides students with opportunity for expanded course selection and solutions to course conflicts. The Virtual High School (VHS) was a success in FY03 and subsequently expanded in FY04 so more students can take advantage of this new, effective instructional model. The VHS has been so successful that student slots have been purchased by other school divisions and the Commonwealth of Virginia so that students across the state could take advantage of this unique instructional method.

◆ Division continues to grow with the community.

Several construction projects were started or completed during the 2003-04 school year:

- A major renovation at Bruton High School was completed in fiscal year 2004.
- The addition of 12 classrooms; new administration, guidance and clinic offices; and site work at Bethel Manor Elementary School was completed the summer 2003.
- The construction work for a major renovation and addition at Queens Lake Middle School was almost completed in fiscal year 2004. The project will be completed in FY05. Scope of the project included replacement of the roof, HVAC and mechanical system, lighting, floor and ceiling. An additional eight new classrooms were included in the construction. The media center and the school administrative areas were also renovated.
- On June 30, 2004 student membership was 12,363, an increase of 174 students, or 1.4% greater than the FY 2003 student membership.

◆ GASB Statement No. 34

The York County School Division implemented the requirements of Statement No. 34 of the Governmental Accounting Standards Board (GASB 34) in fiscal year 2003. Fiscal year 2004 marks the second year of financial reporting using the requirements of Statement No. 34.

◆ Future Initiatives

In the future, the School Division will continue to focus resources on maintaining or reducing student to teacher ratios. Available revenues will also be directed toward programs and initiatives that will enhance the School Division's ability to continue to meet or exceed the State Standards of Learning and the requirements of the federal *No Child Left Behind* legislation.

Maintain a competitive compensation plan for licensed and non-licensed staff.

Major facility renovations planned for the future include the School Board Office building, classroom additions and renovations at York High School and Yorktown Middle School.

Cash Management

Cash and temporary investments pertaining to the School Division's funds (except school activity account funds) are pooled and invested with the cash and temporary investments of the County. The County Treasurer, through daily activity with several local banking institutions, carries out an aggressive cash management program. Temporary idle funds are invested promptly in repurchase agreements and other instruments that are secured or collateralized by governmental securities as required by the Code of Virginia.

Independent Audit

An annual audit of the books of accounts, financial records, and transactions of all departments of the School Division has been performed by Cherry, Bekaert and Holland, L.L.P., Certified Public Accountants. The auditor's report, which includes their unqualified opinion on the basic financial statements of the School Division, is contained in this report.

Risk Management

The School Board's risk management program is designed to protect the investment of taxpayers by identifying and reducing risks that confront the School Division. The School Board manages the program with a combination of in-house staff and third-party administrators. For fiscal year 2004, the County and the School Division contracted with a third party to administer a joint deductible workers' compensation program with risk of up to \$200,000 for each occurrence subject to a \$600,000 annual aggregate on the combined claims. The County and the School Division continue to effectively manage the joint deductible workers' compensation program.

Financial Reporting Certificate Awards

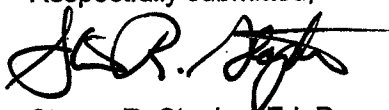
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the York County School Division for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In addition, the Association of School Business Officials of the United States and Canada (ASBO) awarded a Certificate of Excellence in Financial Reporting to the York County School Division for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement from the GFOA or a Certificate of Excellence from ASBO, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate is the highest form of recognition awarded in the field of governmental financial reporting.

A Certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate. We also believe that our current comprehensive annual financial report continues to meet the Certificate of Excellence program requirements and we are submitting it to ASBO to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated service of the entire staff of the Department of Finance. We would also like to thank the members of the School Board for their interest and support in planning and conducting the financial operations of the School Division in a responsible and progressive manner.

Respectfully submitted,



Steven R. Staples, Ed. D.
Division Superintendent



Dennis R. Jarrett
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The York County
School Division, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Ennis".

Executive Director

ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL



This Certificate of Excellence in Financial Reporting is presented to

YORK COUNTY SCHOOL DIVISION

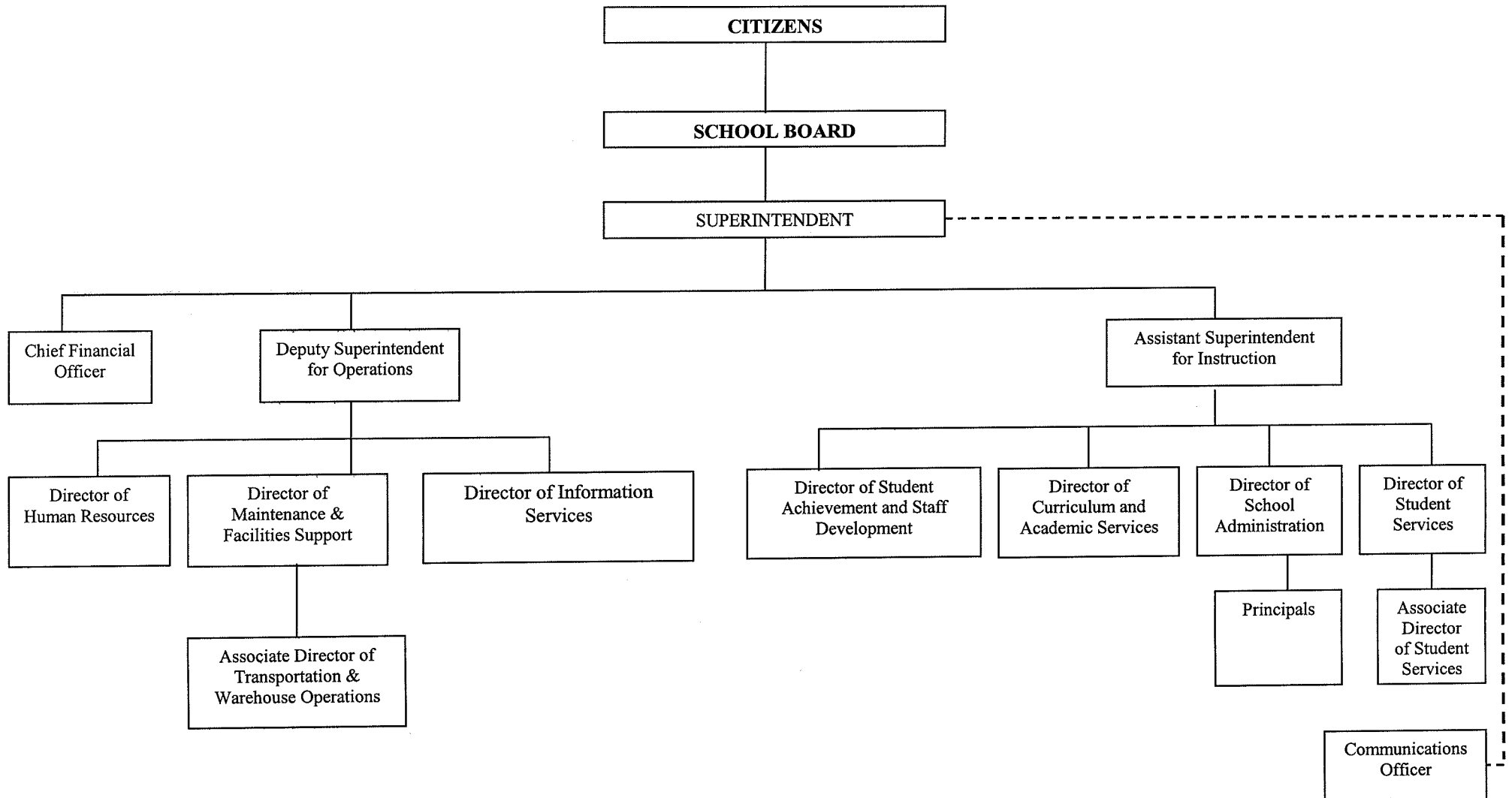
For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2003

Upon recommendation of the Association's Panel of Review which has judged the Report
substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

William F. Zell
President

Deanne L. Keller
Executive Director

YORK COUNTY SCHOOL DIVISION ORGANIZATION CHART
As of June 30, 2004



THE YORK COUNTY SCHOOL DIVISION

Component Unit of the County of York, Virginia
June 30, 2004

School Division

Barbara S. Haywood, Chairman
Mark A. Medford, Vice-Chairman
Barrent M. Henry
Linda S. Meadows
R. Page Minter

School Officials

Superintendent of Schools
Deputy Superintendent for Operations
Assistant Superintendent for Instruction
Chief Financial Officer
Director of Student Services
Director of Curriculum and Academic Services
Director of Student Achievement and Staff Development
Director of School Administration
Director of Human Resources
Director of Maintenance and Facilities Support

Dr. Steven R. Staples
Richard M. Hixson
Dr. James R. Tucker
Dennis R. Jarrett
Dr. Suzanne M. Creasey
Dr. Kate E. Richmond
Dr. Jennifer B. Parish
Dr. Carl L. James
Dr. Judy Davis-Dorsey
James M. Wilkins

THIS PAGE LEFT BLANK INTENTIONALLY

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



REPORT OF INDEPENDENT AUDITORS

Members of the School Division
York County School Division

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the York County School Division, a component unit of the County of York, Virginia, as of and for the year ended June 30, 2004 which collectively comprise the School Division's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the York County School Division's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and aggregate remaining fund information of the York County School Division as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004, on our consideration of the York County School Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 16 through 30, the budgetary comparison schedules of the general fund and the other required supplementary information on pages 62 through 68 listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the York County School Division's basic financial statements. The introductory section, other supplemental information, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cheng, Beckett & Hall, LLP

Richmond, Virginia
September 24, 2004

York County School Division
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The discussion and analysis of the York County School Division's (hereafter School Division) financial performance provides an overall review of the School Division's financial activities for the fiscal year ended June 30, 2004 (FY 2004). The intent of this discussion and analysis is to look at the School Division's financial performance as whole; readers should also review the transmittal letter at the front of this report and the School Division's financial statements and notes to the basic financial statements which immediately follow this section, to enhance their understanding of the School Division's financial performance.

Financial Highlights

- For the governmental funds, General Fund revenues accounted for \$85.0 million or 89.6% of all revenues and expenditures were \$85.7 million or 88.1% of all expenditures.
- Net assets decreased by \$1.9 million to a total of \$109.6 million. The value of net assets reflects the financial health of the School Division and includes certain assets procured with debt. The School Division is a component unit of, and fiscally dependent on the County of York. As such, all debt related to School Division assets is shown on the County's statement of net assets. The most significant reason for the planned \$1.9 million decrease in net assets was the use of fund balance for projects in FY04.
- Food Services ended the fiscal year with a Fund Balance of \$410,612, a decrease of \$230,835 over the beginning of year fund balance. A large portion of the decrease stems from the start-up costs for food supplies, equipment, and staff associated with a new performance contract with a third-party management company to oversee and manage the food service operations in the School Division.

Using This Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance.

As illustrated in Figure A-1, the financial section of this annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*.

The basic financial statements include two kinds of statements that present different views of the School Division.

- The first two statements are *School Division-wide financial statements* that provide both *short-term* and *long-term* information about the School Division's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School Division, reporting the School Division's operations in *more detail* than the School Division-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the School Division acts solely as a *trustee* or *agent*.

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements with a comparison of the School Division's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

FIGURE A-1

Organization of York County School Division Annual Financial Report

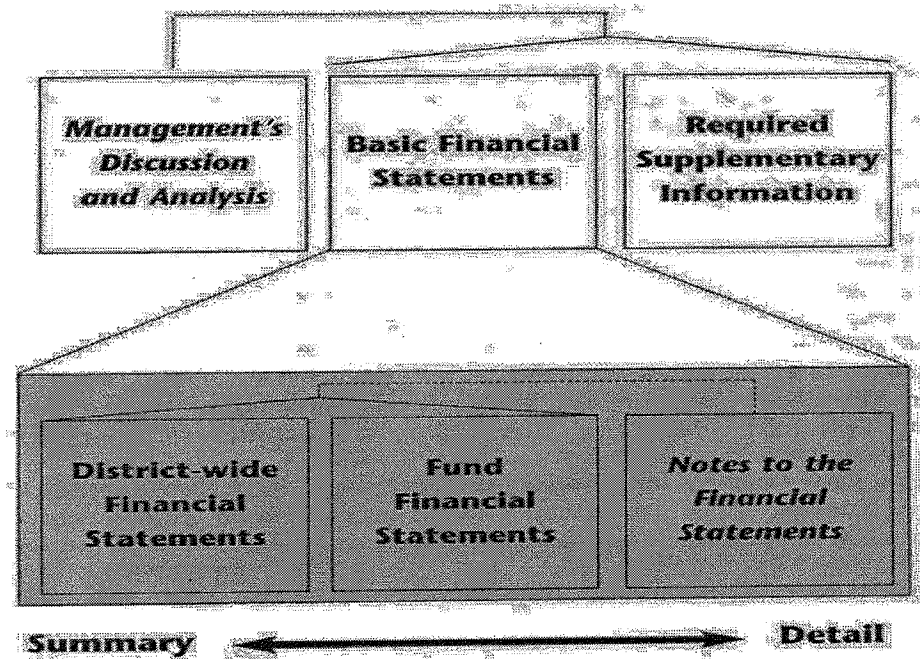


Figure A-2 summarizes the major features of the School Division's financial statements, including the portion of the School Division's activities they cover and the types of information they contain. The remainder of the overview section of the MD&A highlights the structure and contents of each of the financial statements.

FIGURE A-2

Major Features of the School Division-Wide and Fund Financial Statements				
	School Division-wide Statements	Fund Financial Statements		
		Governmental Funds	Fiduciary Funds	
Scope	Entire School Division (except fiduciary funds)	The activities of the School Division that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the School Division administers resources on behalf of someone else, such as scholarship programs and student activities monies	
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures, and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets	
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can	
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid	

School Division-wide Statements

The School Division-wide statements report information about the York County School Division as a whole using accounting methods similar to those used in private-sector companies. While this document contains a number of funds used by the School Division to provide programs and activities, the view of the School Division, as a whole, looks at all financial transactions and asks the question, “How did we do financially during FY 2004?” The Statement of Net Assets and the Statement of Activities answer this question. These statements report all of the assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

The two School Division-wide statements report the School Division’s *net assets* and how they have changed. Net assets—the difference between the School Division’s assets and liabilities—are only one way to measure the School Division’s financial health or position.

- Over time increases or decreases in the School Division’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School Division, additional non-financial factors may also be relevant, such as changes in the County tax base, the condition of school buildings and other facilities, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School Division reports only activities related to governmental-type activities, since it has no business-type activities. The School Division’s governmental-type activities include: instruction, administration/attendance and health, transportation, operations and maintenance, food service, and interest on capital leases and capital projects.

Fund Financial Statements

The fund financial statements provide more detailed information about the School Division’s most significant or “major” funds. Funds are accounting devices that the School Division uses to help keep track of specific sources of funding and spending for particular purposes.

The School Division has two types of funds:

- *Governmental Funds*: Most of the School Division’s activities are reported in governmental funds, which focus on how much money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School Division’s general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer resources that can be spent in the near future to finance educational programs. Because the governmental funds information does not encompass the additional long-term focus of the School Division-wide statements, additional information has been added in the form of reconciliation between the total fund balances of the governmental funds and the total net assets of the School Division-wide activities.

Fund Financial Statements (Continued)

- *Fiduciary Funds:* The School Division is trustee or fiduciary for the York County School Board Benefit and Pension Trust Fund. All of the fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the division-wide statements because the School Division cannot use these assets to finance its operation. The student activity monies are also accounted for in this fund type, as an agency fund.

Financial Analysis of the School Division as a Whole

Net Assets:

The condensed statement of net assets below describes the financial position of the School Division on June 30, 2004. The largest portion of the School Division net assets reflects its investment in capital assets (buildings, land, equipment, and construction-in-progress). Capital assets account for 99.1% of the total net assets and have increased by \$2.4 million since June 30, 2003. The only debt netted against capital assets is for capital leases. As a component unit (School Division) in Virginia, the School Division does not have the authority to issue debt. All debt is issued by the County of York and, therefore, is shown as a liability on its statement of net assets. In years where there are substantial additions to capital assets that are funded through the issuance of debt, the School Division will have substantial increases in net assets. A more detailed discussion on debt is contained in a later section entitled "Outstanding Long-Term Debt".

The other components of net assets are restricted net assets and unrestricted net assets. Restricted net assets represent those resources that have externally imposed constraints on their use. Unrestricted net assets are those resources that may be used to meet the obligations placed on the School Division by its creditors and to pay for ongoing operations of the School Division. At the end of the fiscal year unrestricted net assets amounted to \$.5 million, this reflects a decrease in unrestricted assets of \$4.2 million. All three components of net assets show positive balances.

Financial Analysis of the School Division as a Whole (Continued)

Net Assets: (Continued)

Condensed Statement of Net Assets (in millions)				
	Governmental Activities 2004	Governmental Activities 2003	Total Percentage Change	
Assets				
Current and other assets	\$ 19.3	\$ 21.4	(9.8%)	
Capital assets	108.6	106.2	2.3%	
Total assets	127.9	127.6	0.2%	
Liabilities				
Current liabilities	16.7	14.8	12.8%	
Long-term liabilities	1.6	1.3	23.1%	
Total liabilities	18.3	16.1	13.7%	
Net assets				
Invested in capital assets	108.3	105.8	2.4%	
Restricted	0.8	1.0	(20.0%)	
Unrestricted	0.5	4.7	(89.4%)	
Total net assets	\$ 109.6	\$ 111.5	(1.7%)	

Net Assets: (Continued)

Changes in Net Assets (in millions)				
	Governmental Activities 2004		Governmental Activities 2003	Total Percentage Change
Revenues				
Program revenues				
Charges for services	\$ 2.8	\$	2.4	16.7%
Operating grants and contributions	46.0		45.7	0.7%
Capital grants and contributions	1.6		1.2	33.3%
General revenues				
County	35.8		37.7	(0.5%)
Shared intergovernmental revenues	8.0		7.3	9.6%
Revenues from the use of money and property	0.5		0.6	(16.7%)
Miscellaneous revenues	0.2		0.1	200.0%
Total revenues	94.9		95.0	0.0%
Expenses				
Instruction	\$ 67.8	\$	60.7	11.7%
Administration/attendance and health	5.8		5.6	3.6%
Transportation	5.0		4.5	11.1%
Operations and maintenance	10.1		9.1	11.0%
Food service	3.4		2.6	30.8%
Interest on capital leases	0.1		0.1	0.0%
Capital projects	4.6		2.8	64.3%
Total expenses	96.8		85.4	13.3%
Change in net assets	(1.9)		9.6	(119.8%)
Net assets - beginning of year	111.5		101.9	9.4%
Net assets - end of year	\$ 109.6	\$	111.5	(1.7%)
Note: Totals may not add due to rounding.				

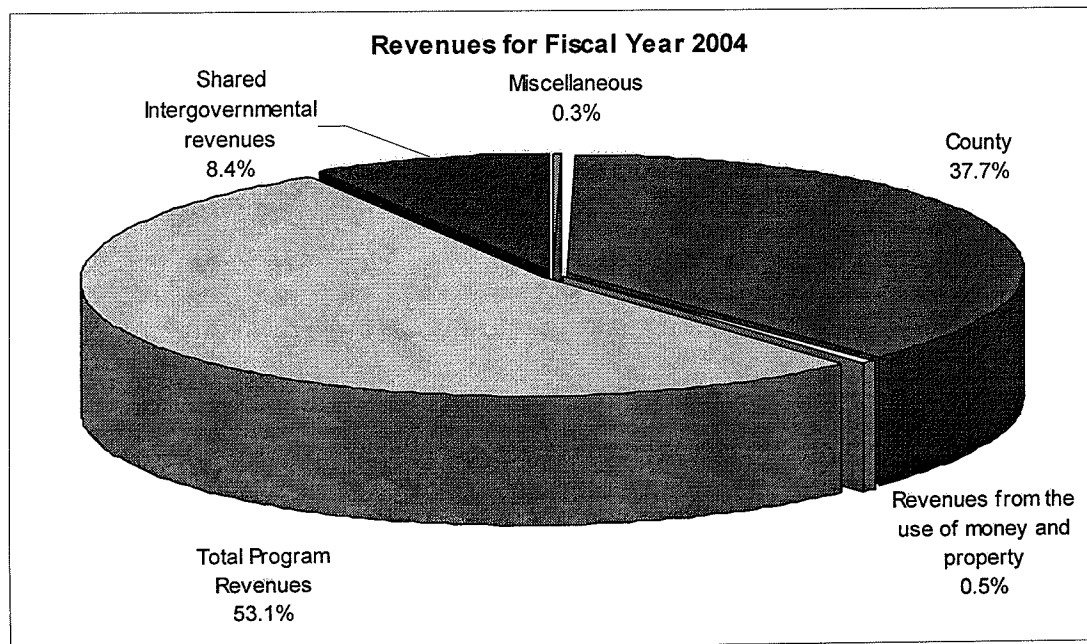
Financial Analysis of the School Division as a Whole (Continued)

Changes in net assets:

For the fiscal year ended June 30, 2004, revenues from governmental activities totaled \$94.9 million. State and federal revenue for operating grants and contributions account for 48.4% of the School Division's resources as compared to 48.1% for the fiscal year ended June 30, 2003. This includes state funding for meeting the Standards of Quality and federal impact aid. Revenues from the County totaled \$35.8 or 37.7% of the total revenues as compared to \$37.7 or 39.7% for the fiscal year ended June 30, 2003. The decrease in County funding relates to a major portion of the capital projects in FY04 being funded from fund balance.

The total cost of all programs was \$96.8 million in FY 2004. Instruction made up 70.0% of the total costs of the School Division in FY 2004 and 71.1% in FY 2003. The School Division's operations and maintenance activities accounted for 10.4% of total costs for FY 2004 while administration/attendance and health amounted to 6.0% of total costs.

For the fiscal year ended 2004, expenses exceeded revenues by a total of \$1.9 million. A substantial portion of this deficit is the recognition of expenses associated with capital outlay related to the School Division's continued expansion and renovation of facilities. The funding for these capital expenses was provided by fund balance.

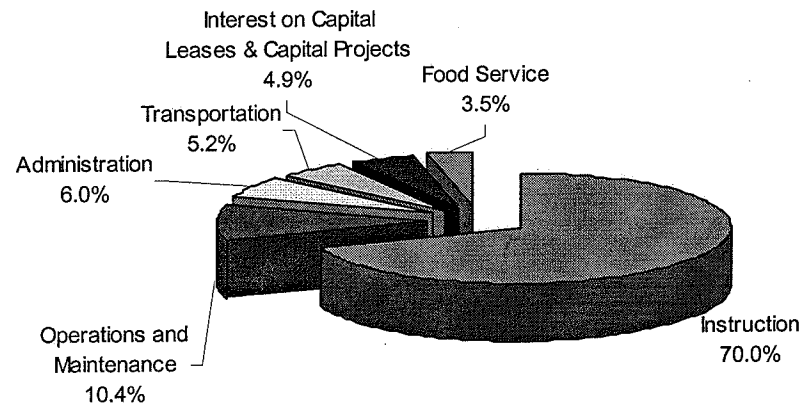


Note: Total Program Revenues reflect revenue from County, State, Federal and Other sources that are dedicated to specific programs or expense areas.

Financial Analysis of the School Division as a Whole (Continued)

Changes in net assets: (Continued)

Expenses for Fiscal Year 2004



Note: Expenses are summarized for display purposes. Each section may include one or more specific program areas.

Governmental Activities

The three primary sources of revenue for the School Division are from County of York, the Commonwealth (State) of Virginia, and the United States Department of Education. State and federal government funding is included in Total Program Revenues. Funding from the County is provided by the York County Board of Supervisors.

State funding is provided through a formula that calculates the State share of the cost of education, as determined in the Standards of Quality, including basic aid and categorical funds. Sales tax (Shared Intergovernmental revenue) revenue totaled \$8.0 million in FY 2004.

Federal funding comes to the School Division from federal grants and impact aid. Impact aid is designed to reimburse school districts for the loss of revenue due to the presence of the federal government. This is an important reimbursement source of revenue to the School Division since the federal government does not pay property taxes.

The following table shows, for government-type activities, the total cost of services and the net cost of services. The net cost of services reflects the support to be provided by tax revenue, state aid, and federal aid not restricted to specific programs.

Net Cost of Governmental Activities				
	(in millions)			
	Total cost of services 2004	Total cost of services 2003	Net cost of services 2004	Net cost of services 2003
Instruction	\$ 67.8	\$ 60.7	\$ 21.7	\$ 15.5
Administration/attendance and health	5.8	5.6	5.8	5.5
Transportation	5.0	4.5	5.0	4.5
Operations and maintenance	10.1	9.1	10.1	9.1
Food service	3.4	2.6	0.3	(0.2)
Interest on capital leases	0.1	0.1	0.1	0.1
Capital projects	4.6	2.8	3.4	1.6
Total expenses	\$ 96.8	\$ 85.4	\$ 46.4	\$ 36.1

Governmental Activities *(Continued)*

Significant changes in governmental activities include:

- The cost of all governmental activities was \$96.8 million.
- The net cost of governmental activities was \$46.4 million.
- The federal and state governments subsidized certain programs with operating and capital grants and contributions of \$47.6 million.
- Most of the School Division's net cost of services of \$46.4 million was funded by the County and state taxpayers.
- Food services net cost of services of \$0.3 million was due to the funding of one-time costs from fund balance.

Financial Analysis of the School Division's Funds

The strong financial performance of the School Division is also reflected in its governmental funds. As the School Division completed the year, its governmental funds reported fund balances of \$8.1 million or a \$2.3 million reduction from the fund balance reported for the fiscal year ended June 30, 2003. The reduction of \$2.3 million relates to expenditures that were funded from fund balance.

All three of the School Division's governmental funds had more expenditures than revenues in FY 2004. Additionally, all three of these funds carried a significant fund balance at the beginning of the year. Total expenditures of the three funds were \$2.3 million above revenues because unused resources from last year were used this year to finance expenditures.

General Fund Budgetary Highlights

The School Division's budget is prepared in accordance with Virginia School Laws. The most significant budgeted fund is the General Fund. During the course of FY 2004, the School Division amended its general fund budget as follows:

- Amended appropriation of \$4,813,836 to reflect the carryover of encumbrances from FY 2003 to FY 2004.
- Supplemental appropriations totaling \$142,342 for increases in the federal Title VIB grant.

Although the School Division's final budget for the general fund anticipated that revenues and expenditures would be equal, the actual results for the year show a deficiency of \$669,086. This deficiency is the result of a \$1,062,204 reduction in the carryover of encumbrances from FY 2003 to FY 2004. The reduction in the carryover of encumbrances coupled with savings in FY 2004 resulted in a net reduction in fund balance of \$669,086.

Capital Assets

At the end of FY 2004, the School Division had \$108.6 million (a 2.2% increase over FY 2003) invested in furniture and equipment, land, buildings, and construction in progress in governmental-type activities. The following table displays FY 2004 balances, net of accumulated depreciation. More detailed information about capital assets can be found in Note 3 to the financial statements.

Capital Assets <i>(Net of Accumulated Depreciation)</i> (in millions)			
	Governmental Activities 2004	Governmental Activities 2003	Total Percentage Change
Land	\$ 4.6	\$ 4.6	0.0%
Construction in progress	4.1	12.7	(67.7%)
Depreciable capital assets	99.9	88.9	12.4%
Total	\$ 108.6	\$ 106.2	2.2%

Major capital asset additions for FY 2004 included:

- A major renovation at Bruton High School was completed in fiscal year 2004.
- Addition of 12 classrooms; new administration, guidance and clinic offices; and site work at Bethel Manor Elementary School was completed the summer 2003.
- Construction work for a major renovation and addition at Queens Lake Middle School was almost completed in fiscal year 2004. The project will be completed in FY 2005. Scope of the project included replacement of the roof, HVAC and mechanical system, lighting, floor and ceiling. An additional eight new classrooms were included in the construction. The media center and the school administrative areas were also renovated.

The following major capital projects are included in the School Division's FY 2005 capital budget:

- Addition of a band room and storage facility at Grafton High School.
- Architectural and engineering work for a new gymnasium at Tabb High School.
- Architectural and engineering work for a major renovation of York High School. Construction will begin in FY 2006 to include HVAC, lighting, floor, ceiling, and approximately 36,000 square feet of roof replacement. Temporary mobile units will be used as classrooms during the renovation of the building.

Funding for the FY 2005 capital projects includes \$1.1 million in appropriated funds from the County of York.

Outstanding Long-Term Debt

School Divisions in the Commonwealth of Virginia are fiscally dependent, in that they do not have taxing authority and rely upon appropriations from the County/City. Only government entities with taxing authority are legally permitted to incur long-term debt, therefore all debt required for capital projects for the School Division is incurred by the County. As a result, the County of York government retains the liability for the portion of general obligation bonds issued to fund capital projects for the School Division.

The County Government appropriates funds to the School Division for the education of the students of the County of York. The School Board, in its annual budget process and in consultation with the County, determines the amount of these funds to support the financing of capital projects for the School Division.

The School Division's long-term debt is related to compensated absences, worker's compensation claims, capital leases on equipment and incurred but not reported health claims. Long-term debt had a net increase of approximately \$1.96 million, primarily due to incurred but not reported health claims. The following table lists out the long term debt for the school division.

York County School Division - Outstanding Debt

	FY 2004	FY 2003
Compensated absences	\$ 1,457,744	\$ 1,550,199
Workers' compensation claims	1,586,692	1,979,810
Capital leases payable	412,250	315,250
Incurred but not reported health claims	1,703,851	3,279,244
Total	\$ 5,160,537	\$ 7,124,503

Additional information on the School Division's long-term debt can be found in note 5 on page 53 of this report.

Factors influencing future budgets:

The FY 2005 budget provides funding for the following significant costs:

- A step increase and a 2% market adjustment for salaries.
- Funding for current programs to support an increase of 237 students.
- Funding to support the capital projects included in the FY 2005 – 2010 CIP.

At the time these financial statements were prepared and audited, the School Division was aware of the following existing circumstances that could significantly affect its financial health in the future.

- The Commonwealth of Virginia passed the new biennium budget for FY 2005 and FY 2006 during the FY 2004 General Assembly session. When the 2005 General Assembly convenes in January, 2005 they will be considering adjustments to the FY 2006 approved budget. The impact on the School Division of the adjusted FY 2006 budget is unknown at this time.
- The full impact of the federal *No Child Left Behind* legislation is being assessed. This legislation has increased costs for the School Division for student testing, training, student instructional programs and hiring/retention of highly qualified staff.
- York High School will undergo a renovation in FY 2006. The cost of the renovation will require the County of York to fund the \$975,000 in FY 2005 for architectural and engineering services and the lease of temporary classroom mobile units. The total construction cost of the project is expected to be \$12 million. Of that amount, the County of York has identified the funding source for \$7.8 million. The remaining \$5.2 million has yet to be approved and a funding source identified.
- The School Division has invested over \$20 *million* in instructional technology. This includes infrastructure, hardware, software, furnishings and training. That equipment will require replacement over the next five to ten years. Approximately \$1.3 million was added to the FY 2005 budget for technology replacement. Additional funding for the replacement of technology will need to be identified in the FY 2006 budget process.

Contacting the York County School Division's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, parents, students, and creditors with a general overview of the School Division's finances and to show the School Division's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Office at York County School Division, P. O. Box 302 Dare Road, Yorktown, Virginia 23692, (757) 898-0300.

BASIC FINANCIAL STATEMENTS

The York County School Division

Statement of Net Assets

June 30, 2004

	Governmental Activities
Assets	
Cash and investments	\$ 4,229,342
Restricted assets - cash and investments	1,009,035
Other receivables	4,316
Due from primary government	11,575,207
Due from other governments	2,477,698
Capital Assets:	
Land	4,669,160
Construction in Progress	4,091,101
Buildings	126,767,211
Improvements other than buildings	2,415,673
Machinery and equipment	1,518,933
Motor vehicles	7,078,933
Accumulated depreciation	(37,914,111)
Total assets	127,922,498
Liabilities	
Vouchers and accounts payable	2,178,811
Retainage payable	212,608
Salaries, taxes and benefits payable	8,433,632
Unearned revenue - prepaid lunches	44,729
Due to primary government	337,738
Due within one year	5,476,443
Due in more than one year	1,648,060
Total liabilities	18,332,021
Net assets	
Net Assets, capital net of debt	108,311,650
Restricted for:	
Capital projects	796,427
Net assets - Unrestricted	482,400
Total net assets	\$ 109,590,477

The York County School Division

Statement of Activities Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary government:					
Governmental activities:					
Instructional	\$ 67,771,930	\$ 511,710	\$ 45,091,237	\$ 491,619	\$ (21,677,364)
Administrative, attendance, and health services	5,837,793	-	-	-	(5,837,793)
Transportation	4,968,615	-	-	-	(4,968,615)
Operations maintenance	10,145,537	-	-	-	(10,145,537)
Food services	3,455,830	2,268,203	910,770	-	(276,857)
Interest on capital leases	18,933	-	-	-	(18,933)
Capital projects	4,589,948	-	-	1,132,222	(3,457,726)
Total governmental activities	96,788,586	2,779,913	46,002,007	1,623,841	(46,382,825)
Total primary government	\$ 96,788,586	\$ 2,779,913	\$ 46,002,007	\$ 1,623,841	(46,382,825)
General revenues:					
Payments from the County of York					35,808,975
Shared intergovernmental revenues					7,940,139
Revenues from use of money and properties					512,158
Miscellaneous					226,840
Total general revenues and transfers					44,488,112
Change in net assets					(1,894,713)
Net assets - beginning					111,485,190
Net assets - ending					<u>\$ 109,590,477</u>

The York County School Division

**Balance Sheet
Governmental Funds
June 30, 2004**

	General	Capital Projects	Non-major Governmental Fund	Total Governmental Funds
Assets				
Cash and temporary investments	\$ 1,993,383	\$ 1,738,940	\$ 497,019	\$ 4,229,342
Restricted cash and investments	-	1,009,035	-	1,009,035
Other receivables	1,697	1,480	1,139	4,316
Due from primary government	11,575,207	-	-	11,575,207
Due from other governments	2,477,698	-	-	2,477,698
Total assets	<u>\$ 16,047,985</u>	<u>\$ 2,749,455</u>	<u>\$ 498,158</u>	<u>\$ 19,295,598</u>
Liabilities and fund balances				
Liabilities:				
Vouchers and accounts payable	\$ 1,559,850	\$ 590,444	\$ 28,517	\$ 2,178,811
Retainage payable	-	212,608	-	212,608
Salaries, taxes and benefits payable	8,418,955	377	14,300	8,433,632
Due to primary government	337,738	-	-	337,738
Deferred revenue	-	-	44,729	44,729
Total liabilities	<u>10,316,543</u>	<u>803,429</u>	<u>87,546</u>	<u>11,207,518</u>
Fund balances:				
Reserved for:				
Encumbrances	3,751,632	1,208,072	50	4,959,754
Unreserved				
Designated for:				
Self insurance	1,979,810	-	-	1,979,810
Construction	-	737,954	-	737,954
Undesignated	-	-	410,562	410,562
Total fund balances	<u>5,731,442</u>	<u>1,946,026</u>	<u>410,612</u>	<u>8,088,080</u>
Total liabilities and fund balances	<u>\$ 16,047,985</u>	<u>\$ 2,749,455</u>	<u>\$ 498,158</u>	<u>\$ 19,295,598</u>

The York County School Division
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds	\$ 8,088,080
--	--------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	108,626,900
---	-------------

Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.	<u>(7,124,503)</u>
---	--------------------

Net assets of governmental activities	<u><u>\$ 109,590,477</u></u>
---------------------------------------	------------------------------

The notes to the financial statements are an intergral part of this statement.

The York County School Division

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2004

	General	Capital Projects	Non-major Governmental Fund	Total Governmental Funds
Revenues				
Intergovernmental:				
From the County of York	\$ 30,755,430	\$ 5,052,462	\$ 1,083	\$ 35,808,975
From the Commonwealth of Virginia	42,408,659	1,132,222	51,053	43,591,934
From the Federal Government	10,620,617	491,619	859,717	11,971,953
Revenues from use of money and property	479,283	27,702	5,173	512,158
Charges for services	511,710	-	2,268,203	2,779,913
Miscellaneous	228,540	400	-	228,940
Total revenues	<u>85,004,239</u>	<u>6,704,405</u>	<u>3,185,229</u>	<u>94,893,873</u>
Expenditures				
Education:				
Instruction	64,156,077	-	-	64,156,077
Administration, attendance and health services	5,907,512	-	-	5,907,512
Pupil transportation	5,101,840	-	-	5,101,840
Operations and maintenance	10,111,467	-	-	10,111,467
Total education	<u>85,276,896</u>	<u>-</u>	<u>-</u>	<u>85,276,896</u>
Food services	-	-	3,416,064	3,416,064
Capital outlay	280,496	8,138,698	-	8,419,194
Debt service:				
Principal retirement	97,000	-	-	97,000
Interest and fiscal charges	18,933	-	-	18,933
Total expenditures	<u>85,673,325</u>	<u>8,138,698</u>	<u>3,416,064</u>	<u>97,228,087</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(669,086)</u>	<u>(1,434,293)</u>	<u>(230,835)</u>	<u>(2,334,214)</u>
 Net change in fund balances	 (669,086)	 (1,434,293)	 (230,835)	 (2,334,214)
 Fund balance - beginning	 <u>6,400,528</u>	 <u>3,380,319</u>	 <u>641,447</u>	 <u>10,422,294</u>
 Fund balance - ending	 <u>\$ 5,731,442</u>	 <u>\$ 1,946,026</u>	 <u>\$ 410,612</u>	 <u>\$ 8,088,080</u>

The York County School Division
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (2,334,214)
--	----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation	2,496,741
---	-----------

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	(93,274)
---	----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This is the amount by which payments exceeded proceeds.	97,000
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated Absences	(92,455)	
Worker's Compensation Claims	(393,118)	
Incurred but not reported Health Claims	<u>(1,575,393)</u>	<u>(2,060,966)</u>

Change in net assets of governmental activities	<u>\$ (1,894,713)</u>
---	-----------------------

The notes to the financial statements are an integral part of this statement.

YORK COUNTY SCHOOL DIVISION

**COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS**

Year Ended June 30, 2004

ASSETS	Pension Trust Fund Optional Plan	Agency Fund - School Activity Funds
Cash and investments	\$ -	\$ 1,273,457
Restricted cash and investments	1,078,623	-
Total assets	\$ 1,078,623	\$ 1,273,457
LIABILITIES		
Benefits due	\$ 1,912	\$ -
Assets held for others	-	1,273,457
NET ASSETS		
Fund balance - reserved for employees' pension benefits	1,076,711	-
Total liabilities and net assets	\$ 1,078,623	\$ -

The accompanying notes are an integral part of the basic financial statements.

YORK COUNTY SCHOOL DIVISION

COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - PENSION TRUST FUND - OPTIONAL PLAN

Year Ended June 30, 2004

Additions		
Contributions - Member		\$ 100,000
Investment income		
Earning from investments	31,526	
Net appreciation in the fair value of net assets	<u>59,672</u>	<u>91,198</u>
Total Additions		191,198
Deductions		
Benefits	113,227	
Administrative expense	<u>9,842</u>	<u>123,069</u>
Net Incease		68,129
Net assets held in trust for pension benefits - beginning of year		<u>1,010,494</u>
Net assets held in trust for pension benefits - end of year		\$ <u>1,078,623</u>

The accompanying notes are an integral part of the basic financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

NOTES TO FINANCIAL STATEMENTS

THE YORK COUNTY SCHOOL DIVISION

COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements presented for the York County School Division, (School Division) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The School Division's significant accounting and reporting policies are described in the following notes:

The Financial Reporting Entity

The School Division is considered a component unit of the County of York (County). The School Division has no component units. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the primary government is accountable for the component unit, and (b) the primary government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the primary government). The information included in these basic financial statements will also be included in the County of York's basic financial statements because of the significance of the School Division's financial relationship with the County.

The School Board determines educational policy and employs a Superintendent of Schools to administer the School Division's policies. The members of the School Board are elected by the citizens of York County.

The School Division is responsible for elementary and secondary education for the County of York.

The accounting policies of the School Division conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies of the School Division.

Basis of Presentation

The School Division's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the School Division as a whole, except for fiduciary funds. These statements are reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities. Operating transfers are eliminated to avoid "doubling up" revenues and expenditures. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental type activities of the School Division at year-end. The School Division does not have any business-type activities. The statement of activities presents a comparison between direct expenses and program revenues for each function of the School Division's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore identifiable to a particular function. Expenses are grouped in the following categories: instruction, administration, attendance and health services, transportation, operations and maintenance, capital projects (not capitalized), and food services.

Program revenues include charges paid by the recipient for the goods or services offered by the program or from grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Charges for services include pupil fees, summer school tuition and cafeteria sales. Revenues not classified as program revenues are presented as general revenues of the School Division. The comparison of direct expenses with program revenues identifies the extent to which the governmental function is self-financing or draws from the general revenues of the School Division. The School Division does not allocate indirect expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements: During the year, the School Division segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements present financial information of the School Division at this more detailed level. The focus of governmental fund financial statements is on major funds, each displayed in a separate column. The School Division has identified the general fund and the capital project fund as major.

The accounts of the School Division are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. The acquisition, use and balances of the School Division's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination. The following fund types groups are used by the School Division:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Governmental Funds

Governmental Funds are those through which most governmental functions of the School Division are financed. The acquisition, use and balances of the School Division's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund types use the "flow of current financial resources" measurement focus. This means that generally only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The following are the School Division's governmental fund types:

General Fund - The General Fund (School Operating Fund) is the general operating fund of the School Division. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund (School Construction Fund) is used to account for financial resources to be used for the acquisition or construction of major capital facilities or maintenance of the school plants (other than those financed by the operating fund).

Non-Major Governmental Fund - The non-major Governmental Fund (School Food Services Fund) is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Accordingly, the School Food Services Fund is used to account for the operations of the various school cafeterias. The revenues of the cafeterias include Federal grants restricted as to the purpose for which they may be used and charges to students for meals.

Fiduciary Funds

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. Accordingly, the measurement focus is upon determination of changes in financial position rather than upon net income determination. The Trust and Agency funds consist of the Pension Trust Fund - Optional Plan and the School Activity Funds.

Trust Fund - The Pension Trust Fund - Optional Plan accounts for the revenues and expenses related to the School Division sponsored retirement plan, which is administered by a fiduciary agent of the York County School Division. The Pension Trust Fund - Optional Plan follows the accrual basis of accounting. The recognition of contributions, benefits and refunds use the "flow of economic resources" measurement focus. The costs of plan administration are financed through employer and member contributions and earnings on investments.

Agency Fund - The Agency Fund is custodial in nature and does not involve measurement of results of operations. The School Division's agency fund is the School Activity Funds, which accounts for the student activity monies maintained on behalf of the students by the principal of each school.

Fiduciary funds are not included in the government-wide financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Both governmental type funds in the government-wide financial statements and the fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The primary revenues susceptible to accrual include intergovernmental revenues. In applying the subject to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the School Division; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally revenues collected within 45 days of year-end are recognized. For grants, revenue is recognized when all eligibility requirements have been met. Expenditures, other than interest and principal on long-term debt which is recorded when due, are recorded when the fund liability is incurred, if measurable.

Cash, Cash Equivalents and Temporary Investments

Cash and temporary investments are pooled with the cash and investments of the County. The School Division utilizes the pooled cash investment method wherein income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. Investments that are held for more than one year to maturity are stated at fair value while investments that are held for less than one year to maturity are stated at amortized cost. The cash in the agency fund represents the student activity funds cash balances in the separate bank accounts maintained by the individual schools. Investments with original maturities of 90 days or less are considered cash equivalents.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Receivables and Due from Other Governments

Amounts due from the Commonwealth of Virginia consist primarily of June sales tax, receivables from state entitlements and reimbursement of grants expenditures. Amounts due from federal governments are for reimbursement of grants expenditures. Receivables consist primarily of amounts due from students and other customers of the School Division. All amounts should be collected within one year.

Inventory

Inventory is accounted for under the purchase method. The cost is recorded as an expenditure at the time inventory is purchased. USDA donated food commodities are accounted for in the School Food Services Fund at the estimated value at the time of receipt. Revenues are recorded when goods are received and expenditures are recorded as goods are used.

Capital Assets

General capital assets have been acquired for general school purposes. Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Division capitalization threshold is met.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated fair market value on the date received. The School Division maintains a capitalization threshold of \$5,000 for equipment, improvements and buildings. Land is capitalized regardless of value. The School Division has no infrastructure assets.

Depreciation is recorded on general capital assets on a government-wide basis. All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Description	Estimated useful lives
Buildings	25-80 years
Improvements other than buildings	30-80 years
Machinery and equipment and vehicles	10-25 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Compensated Absences

Employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation pay earned and, upon retirement, termination or death, may be compensated as salary related payments for certain amounts at their then current rates of pay. The cost of accumulated compensated absences pay including associated benefits is accounted for as a liability in the government-wide financial statements. In the governmental funds, the amount of the vacation pay, including associated benefits, recognized during the year is the amount accrued during the year that is normally liquidated with expendable available financial resources.

Fund Balances/Net Assets

Fund balances have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Fund Balances - Reserved - indicates that a portion of fund equity, which has been legally segregated for specific purposes or does not represent available expendable resources.

Fund Balances - Unreserved, Designated - indicates tentative plans for financial resource utilization in future periods.

Fund Balances - Unreserved, Undesignated - represents the remainder of the School Division's equity in governmental fund – type balances.

Net Assets in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements, or transfers. Loans are reported as due to and due from as appropriate and are subject to elimination in the government-wide statements. Services provided are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide statements.

Retirement Plan

Retirement contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The School Division's policy is to fund pension cost as it accrues.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Use of Estimates

Management of the School Division has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes any differences between these estimates and actual results should not materially affect the School Division's reporting of its financial position.

2. **DEPOSITS AND INVESTMENTS**

The Code of Virginia, as amended, require the election of a County Treasurer. By law, the Treasurer is the custodian of cash investments for both the County of York and the York County School Division, and has powers and duties prescribed by general law. Cash and temporary investments pertaining to the School Division's funds, except the Pension trust fund and the school activity funds, are pooled and invested with the cash and temporary investments of the County. The bank balances of the County's deposits, which includes the School Division's cash pooled with the County, was covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Information to categorize investments for the School Division only, by the level of risk assumed, is unavailable for disclosure. However, information on the pooled deposits and investments (including the investments stated at amortized costs and the investments stated at fair value) for the School Division and County as a whole is presented in the County's Comprehensive Annual Financial Report.

Deposits – Agency Funds

The Agency Fund's carrying value with banks and savings institutions was \$1,273,457 and the bank balance was \$1,317,537. Of the carrying value, \$276,069 was in a checking account and \$997,388 was in repurchase agreements. The bank balance was fully insured by the FDIC and the Securities Investor Protection Corporation at June 30, 2004. The repurchase agreements are categorized as Category 2 which is described below.

Investments

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

2. DEPOSITS AND INVESTMENTS (Continued)

The School Division's investments, other than pooled deposits and investments, are categorized below to give an indication of the level of risk assumed by the School Division at June 30, 2004. Category 1 includes investments that are insured or registered and for which the securities are held by the County or its safekeeping agent in the School Division's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counter party's trust department or its safekeeping agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or by its safekeeping department or agent but not in the County's name.

Investments – Pension Trust

The School Division Pension Trust Fund cash and investments totaling \$1,078,623 contains the following: government money market - \$48,826; corporate debt and equity instruments \$934,900; and federal government securities - \$94,897.

At June 30, 2004, the School Divisions investment balances for the pension trust fund were as follows:

	Category			Carrying	Fair
	1	2	3	Amount	Value
Pooled:					
Corporate debt and equity instruments	\$ 934,900	\$ -	\$ -	\$ 934,900	\$ 934,900
Federal government securities	94,897	-	-	94,897	94,897
Investments not subject to categorization:					
Money Market Funds				48,826	48,826
				<u>\$ 1,078,623</u>	<u>\$ 1,078,623</u>

3. CAPITAL ASSETS – NET

The following is a summary of changes in capital assets for the year ended June 30, 2004:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,669,160	\$ -	\$ -	\$ 4,669,160
Construction in progress	12,675,206	3,829,246	12,413,351	4,091,101
Total capital assets - not being depreciated	17,344,366	3,829,246	12,413,351	8,760,261
Capital assets being depreciated:				
Buildings	113,650,766	13,116,445	-	126,767,211
Improvements other than buildings	2,386,195	29,478	-	2,415,673
Machinery and equipment	1,349,619	327,527	158,213	1,518,933
Motor vehicles	6,704,241	809,986	435,294	7,078,933
Total capital assets being depreciated	124,090,821	14,283,436	593,507	137,780,750
Less accumulated depreciation for:				
Buildings	30,738,218	2,436,339	-	33,174,557
Improvements other than buildings	1,053,519	61,684	-	1,115,203
Machinery and equipment	461,020	106,882	85,068	482,834
Motor vehicles	2,958,997	597,685	415,165	3,141,517
Total accumulated depreciation	35,211,754	3,202,590	500,233	37,914,111
Other capital assets being depreciated - net	88,879,067	11,080,846	93,274	99,866,639
Governmental activities capital assets - net	\$ 106,223,433	\$ 14,910,092	\$ 12,506,625	\$ 108,626,900

3. CAPITAL ASSETS – NET *(Continued)*

Depreciation expense was charged to functions as follows:

Governmental Activities:

Instruction	\$ 2,519,969
Administration, attendance and health services	44,423
Pupil transportation	536,943
Operations and maintenance	63,782
Food services	<u>37,473</u>
Total governmental activities depreciation expense	<u>\$ 3,202,590</u>

Construction in progress is composed of the following at June 30, 2004:

	<u>Project authorization</u>	<u>Expended through June 30, 2004</u>	<u>Balance of authorization</u>	<u>Future requirements</u>
School projects	\$ 9,379,881	\$ 4,091,101	\$ 5,288,780	\$ -

The majority of the capital assets were donated to the School Division by the County. The County has issued general obligation bonds and obtained literary loans from the Commonwealth of Virginia on behalf of the School Division. Certain school buildings have been pledged as collateral for the literary loans.

4. LEASES

In July 1997 the School Division replaced the lighting at 9 elementary schools, 2 middle schools and 1 high school as part of an energy conservation program. The lighting was financed with a capital lease agreement that expires in October 2007. The gross amount of the assets acquired under the capital lease was \$970,000 and this amount is recorded in major asset class of buildings.

A summary of future minimum lease payments under this capital lease together with the present value of the net minimum lease payments as of June 30, 2004, is as follows:

<u>Fiscal Year</u>	
2005	\$ 107,834
2006	103,952
2007	100,072
2008	24,412
Total minimum payments	<u>336,270</u>
Less - amount representing interest	<u>(21,020)</u>
Present value of principal	<u>\$ 315,250</u>

The School Division leases certain equipment and office space under non-cancelable operating lease agreements. A summary of future minimum rental payments under non-cancelable operating leases as of June 30, 2004, is as follows:

<u>Fiscal Year</u>	
2005	\$ 203,764
2006	<u>4,600</u>
Total minimum payments	<u>\$ 208,364</u>

Rental expenditures for the year ended June 30, 2004 for all operating leases were \$228,909.

4. **LEASES (Continued)**

Lessor - The School Division leases certain land where radio towers are located. The School Division does not own the radio towers but does own the land. The radio towers are located at York Middle School, York High School, and Waller Elementary School. The School Division also leases a portion of Yorktown Middle School to the New Horizons Regional Education Center. The total cost and accumulated depreciation of the Yorktown Middle School building at June 30, 2004 is \$1,066,600 and \$668,325, respectively.

A summary of future minimum rental receipts under non-cancelable operating leases as of June 30, 2004, is as follows:

<u>Fiscal Year</u>	
2005	\$ 117,636
2006	117,636
2007	117,636
2008	109,056
2009	40,000
Thereafter	40,000
Total minimum receipts	<u>\$ 541,964</u>

Rental revenue for all operating leases were \$117,053 for the year ended June 30, 2004.

5. **LONG-TERM LIABILITIES**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Due within one year</u>
Compensated absences	\$ 1,457,744	\$ 856,580	\$ 764,125	\$ 1,550,199	\$ 1,550,199
Workers' compensation claims	1,586,692	662,778	269,660	1,979,810	550,000
Capital leases payable	412,250	-	97,000	315,250	97,000
Incurring but not reported health claims	1,703,851	10,184,822	8,609,429	3,279,244	3,279,244
Totals	<u>\$ 5,160,537</u>	<u>\$ 11,704,180</u>	<u>\$ 9,740,214</u>	<u>\$ 7,124,503</u>	<u>\$ 5,476,443</u>

Long-term liabilities are normally paid from the General Fund.

6. DEFINED BENEFIT PENSION PLANS

Virginia Retirement System (VRS)

Plan Description

The School Division contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System.

Professional and non-professional employees of the School Division are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool. As of June 30, 1992, non-professional employees of the School Division are also covered by the VRS. The payroll for professional employees covered by VRS for the year ended June 30, 2004, was \$47,059,100; the total payroll was \$47,564,584. The payroll for non-professional employees covered by VRS for the year ended June 30, 2004, was \$6,105,556; the total payroll was \$7,564,458.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of credited service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 50 with 30 years of service for participating employers, payable monthly for life, in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their web site at <http://www.varetire.org/Pdf/2003AnnuRept.pdf> or obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

VRS plan members are required, by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. This 5% member contribution has been assumed by the School Division. In addition, the School Division is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Division's contribution rate for non-professional employees for the fiscal years ended 2004, 2003, and 2002 was 10%, 10% and 10%, respectively, of annual covered payroll, or in the amounts of \$ 614,300, \$599,222, and \$551,058, respectively, and was fully funded for each fiscal year. The School Division's required contribution to the teacher cost-sharing pool for the fiscal years ended 2004, 2003 and 2002 was \$4,439,787, \$3,969,426, and \$3,634,937, respectively, and was fully funded for each fiscal year.

6. DEFINED BENEFIT PENSION PLANS (Continued)

Annual Pension Cost

For 2004, the School Division's annual pension cost was equal to the School Division's required and actual contributions. This actuarial valuation uses the assumptions and methods that were adopted as a result of the 2000 Experience Study. In particular it uses an assumed investment return rate of 8%; an assumed annual cost of living adjustment of 3.00%; projected salary increases ranging from 4.25% - 6.10% per year depending on the members service and classification; and retirement, mortality and disability and termination rates that were also based on the 2000 Experience Study prepared for the VRS. Liabilities were determined under the Entry Age Normal actuarial cost method. The actuarial value of the School Division's assets is the adjusted market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period at the rate of 20% per year. It reflects only a portion of the excess (or shortfall) between recent investment returns and the corresponding expected returns based on the 8% investment return assumption. The funding excess is being amortized as a level percentage of payroll on an open basis within a period of thirty years or less.

Contributions are recognized in the period in which amounts are due pursuant to formal commitments and benefits, and refunds are recognized when due and payable in accordance with the terms of the plan.

York County Public Schools - Optional Plan

Description

The Optional Plan, a single employer defined pension benefit plan, provides pension benefits to non-professional employees of the School Division who were not previously covered by VRS. A fiduciary agent of the School Division administers the optional plan, which provides retirement benefits as well as death and disability benefits. As of June 30, 1992, the optional plan was frozen and the non-professional employees who participated in the plan became fully vested. The non-professional employees now participate in the VRS as noted above. Stand-alone financial reports are not issued for this plan. The optional plan's current membership, as of July 1, 2004 includes 64 active participants, 57 retirees and beneficiaries, and 7 vested terminations.

6. **DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy

The actuarial accrued liability for the optional plan was determined as part of an actuarial valuation on June 30, 2004 using the projected unit credit actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) post-retirement benefit increases of 2% per year, and (c) percentage of current retiree benefits to be paid of 100%. Because the plan is frozen, no salary increases are projected. The unfunded actuarial liability is being amortized over 20 years, using the closed method, and at the valuation interest rate with payments increasing 4 1/4% per year. The optional plan uses the level payment method to amortize the unfunded liability over 20 years. The actuarial value of the Schools Division's assets is the market value of the assets, adjusted for accrued contributions and unpaid benefits. Actual contributions to the optional plan were \$100,000, \$300,000, and \$157,000, for the years ended 2003, 2002, and 2001, respectively.

Schedule of Annual Pension Costs and Employer Contributions for Optional Plan

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
1999	\$ 36,399	100%
2000	\$ 43,413	100%
2001	\$ 41,043	100%
2002	\$ 79,598	100%
2003	\$ 82,264	100%
2004	\$ 87,912	100%

7. CONTINGENT LIABILITIES

Risk Management

The School Division is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School Division reports all of its risk management activities in its School Operating Fund and pays all claims for retained risks from School Operating Fund resources. The School Division maintains comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, and employer's liability and certain other risks with commercial insurance companies. The School Operating Fund retains the full risk for unemployment compensation, up to \$100,000 for each health care claim and up to \$200,000 for each workers' compensation occurrence subject to a \$600,000 annual aggregate on the combined claims. All unemployment, health care claims and workers' compensation claims are paid through a third-party administrator through resources from the School Operating Fund. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The School board health care claim liability at June 30 is included in salaries, taxes, and benefits payable balance of the Schools Operating Fund.

The Schools had available \$3,279,244 for health care claims and \$1,979,810 for workers' compensation claims, at June 30, 2004, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

Changes in the reported amounts since June 30, 2002 resulted from the following:

	<u>2004</u>	<u>2003</u>
Accrued liability/designated fund balance – beginning of year	\$ 3,290,543	\$ 2,345,486
Claims and changes in estimates	10,847,600	6,515,658
Claims payment	<u>(8,879,089)</u>	<u>(5,570,581)</u>
Accrued liability/designated fund balance – end of year	\$ <u>5,259,054</u>	\$ <u>3,290,543</u>

7. CONTINGENT LIABILITIES (Continued)

Litigation

The School Division is involved in a lawsuit arising in the ordinary course of operations. It is the opinion of the School Division's management, based on the advice of the School Division's attorney, that any losses incurred as a result of claims existing as of June 30, 2004 will not be material to the financial statements.

Grants

The School Division received grant funds, principally from the State and Federal Government, for instructional and various other programs. Expenditures from these grants are subject to audit by the grantor, and the School Division is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the School Division, any refunds that may be required as a result of expenditures disallowed by the grantors will not be material to the financial statements.

8. POST-RETIREMENT BENEFITS

In addition to the pension benefits described in Note 6, the School Division provides post-retirement health care benefits, in accordance with School Division policy, to all employees who retire from York County Public Schools with 100 days of accumulated sick leave, 10 years of service and a minimum of 24 months participation in the health insurance program immediately prior to retirement. Currently, 35 retirees are participating in this program. The School Division pays a monthly contribution of \$25 toward the health care program premium for a total period of time not to exceed 10 years or until the retiree is eligible for Medicare, whichever occurs first. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$53,430 were recognized as incurred for post-retirement health care.

9. DEFERRED COMPENSATION PLAN

The School Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to all School Division employees, permits them to defer a portion of their salary to future years. Participation in the plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship and/or reaching age 59 ½. The School Division offers a selection of investment options to participants. All earnings on the invested funds compound tax-free until withdrawn from the account.

10. TRANSACTIONS BETWEEN PRIMARY GOVERNMENT AND THE SCHOOL DIVISION

The following activities took place between the Primary Government and the School Division during the year ended June 30, 2004.

	Intergovernmental Revenues From the County of York
School Operating Fund	\$ 30,755,430
Capital Projects Fund	5,052,462
Special Revenue	<u>1,083</u>
	<u>\$ 35,808,975</u>

	<u>Due From</u>	<u>Due To</u>
Primary Government: General Fund	<u>\$ 11,575,207</u>	<u>\$ 337,738</u>

* * * * *

THIS PAGE LEFT BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

The York County School Division

Schedule of Revenues Budget and Actual - General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Intergovernmental:				
County of York	\$ 31,439,000	\$ 31,459,000	\$ 30,755,430	\$ (703,570)
Commonwealth of Virginia:				
State sales tax	7,704,769	7,704,769	7,940,139	235,370
Basic aid	26,596,090	26,596,090	26,214,429	(381,661)
Lottery	870,012	870,012	850,400	(19,612)
RLCC	-	-	4,250	4,250
Foster home children	25,000	25,000	16,134	(8,866)
Gifted and talented	279,360	279,360	276,306	(3,054)
Remedial programs	256,080	256,080	253,281	(2,799)
Remedial summer school	87,272	87,272	75,812	(11,460)
Remediation	59,922	59,922	63,751	3,829
Reading intervention	66,892	66,892	69,933	3,041
Special education-SOQ	2,490,960	2,490,960	2,463,733	(27,227)
Homebound	20,000	20,000	13,505	(6,495)
Comprehensive services act	175,000	175,000	74,652	(100,348)
Free textbooks	584,794	584,794	578,402	(6,392)
VOC ED-SOQ	310,400	310,400	307,007	(3,393)
Special education support	244,747	244,747	283,512	38,765
Employer share benefits	2,106,498	2,106,498	2,087,649	(18,849)
New Horizons-Regional	20,000	20,000	-	(20,000)
Other CAT/VOC ED	15,713	15,713	13,832	(1,881)
At-risk	69,076	69,076	68,322	(754)
K-3 initiative	153,719	153,719	170,652	16,933
SOL algebra readiness	70,257	70,257	68,736	(1,521)
Tech Init- FY2003	544,000	544,000	-	(544,000)
Miscellaneous grants	457,696	457,696	174,473	(283,223)

The York County School Division

Schedule of Revenues Budget and Actual - General Fund Year Ended June 30, 2004

ESL	17,000	17,000	32,742	15,742
York River Academy	10,277	10,277	-	(10,277)
Salary Supplement	222,852	222,852	307,007	84,155
Total from the Commonwealth of Virginia	<u>43,458,386</u>	<u>43,458,386</u>	<u>42,408,659</u>	<u>(1,049,727)</u>
Federal Government:				
Title I	714,380	642,942	668,619	25,677
Adult recreation	25,000	29,146	28,176	(970)
Title II A	320,184	298,835	283,988	(14,847)
Title II D	18,344	24,536	19,224	(5,312)
Title IV A	45,509	47,869	48,765	896
Title V A	47,970	48,824	43,467	(5,357)
Impact aid	7,650,000	7,650,000	7,643,093	(6,907)
Department of Defense	-	-	9,671	9,671
Title VI B	1,247,982	1,456,704	1,267,667	(189,037)
Title II-EESA	-	-	11,765	11,765
Troops to Teachers	12,027	12,027	-	(12,027)
E-Rate	75,000	75,000	132,236	57,236
NJROTC	85,000	85,000	97,986	12,986
Miscellaneous grants	496,776	496,776	266,689	(230,087)
Title IIIA	-	12,855	5,982	(6,873)
York River Charter School	-	-	93,289	93,289
Total from the Federal Government	<u>10,738,172</u>	<u>10,880,514</u>	<u>10,620,617</u>	<u>(259,897)</u>
Miscellaneous revenues:				
Use of money and property	365,800	365,800	479,283	113,483
Charges for services	611,150	611,150	511,710	(99,440)
Miscellaneous	100,000	100,000	228,540	128,540
Total miscellaneous revenues	<u>1,076,950</u>	<u>1,076,950</u>	<u>1,219,533</u>	<u>142,583</u>
Total revenues and other financing sources	<u>\$ 86,712,508</u>	<u>\$ 86,874,850</u>	<u>\$ 85,004,239</u>	<u>\$ (1,870,611)</u>

The York County School Division

Schedule of Expenditures Budget and Actual - General Fund

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Education				
Instruction:				
Classroom instruction services:				
Regular education	\$ 41,155,908	\$ 40,814,672	\$ 39,134,339	\$ 1,680,333
Special education	6,965,680	6,897,036	6,086,241	810,795
Vocational education	2,729,536	2,714,974	2,369,422	345,552
Gifted and talented	285,299	285,649	227,575	58,074
Other programs	3,799,082	3,374,644	3,112,177	262,467
Instructional support-student:				
Guidance	2,244,675	2,246,375	2,147,320	99,055
Homebound	53,794	53,794	57,096	(3,302)
Instructional support-staff:				
Management and staff development	2,132,797	2,155,152	1,975,884	179,268
Media services	1,565,164	1,553,564	1,365,657	187,907
Instructional support- school administration:				
Principals' offices	5,317,581	5,330,658	5,127,040	203,618
School carryover	-	2,996,877	2,553,326	443,551
Total instruction	66,249,516	68,423,395	64,156,077	4,267,318
Administration, attendance and health services:				
Board services	104,931	108,431	108,152	279
Executive services	428,528	429,628	451,684	(22,056)
Communication services	220,346	220,346	224,622	(4,276)
Human resources	890,006	907,795	865,868	41,927
Fiscal services	823,471	908,471	813,725	94,746
Information services	1,420,321	1,505,009	1,578,627	(73,618)
Health services	883,381	932,149	920,194	11,955

The York County School Division

Schedule of Expenditures Budget and Actual - General Fund Year Ended June 30, 2004

Psychological services	422,181	422,181	395,339	26,842
Speech and audiology services	446,958	446,958	437,036	9,922
School carryover	-	140,584	112,265	28,319
Total administration, attendance and health services	<u>5,640,123</u>	<u>6,021,552</u>	<u>5,907,512</u>	<u>114,040</u>
Operating costs:				
Pupil transportation:				
Vehicle operation services	4,069,340	4,071,340	3,834,891	236,449
Vehicle maintenance services	913,491	1,113,491	805,271	308,220
School carryover	-	467,332	461,678	5,654
Total pupil transportation	<u>4,982,831</u>	<u>5,652,163</u>	<u>5,101,840</u>	<u>550,323</u>
Operations and maintenance:				
Management and direction	213,815	180,846	170,598	10,248
Building services	8,983,126	9,539,834	8,376,495	1,163,339
Vehicle services	186,412	189,412	206,028	(16,616)
Warehouse and distribution services	315,147	315,147	279,871	35,276
School carryover	-	1,224,799	1,078,475	146,324
Total operations and maintenance	<u>9,698,500</u>	<u>11,450,038</u>	<u>10,111,467</u>	<u>1,338,571</u>
Total operating costs	<u>14,681,331</u>	<u>17,102,201</u>	<u>15,213,307</u>	<u>1,888,894</u>
Total education	<u>86,570,970</u>	<u>91,547,148</u>	<u>85,276,896</u>	<u>6,270,252</u>
Capital outlay	-	-	280,496	(280,496)
Debt Service				
Principal	141,538	141,538	97,000	44,538
Interest	-	-	18,933	(18,933)
Total debt service	<u>141,538</u>	<u>141,538</u>	<u>115,933</u>	<u>25,605</u>
Total expenditures and other financing sources	<u>\$ 86,712,508</u>	<u>\$ 91,688,686</u>	<u>\$ 85,673,325</u>	<u>\$ 6,015,361</u>

THE YORK COUNTY SCHOOL DIVISION

**COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
SCHEDULE OF FUNDING PROGRESS FOR DEFINED PENSION BENEFIT PLANS (UNAUDITED)**

Year Ended June 30, 2004

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age</u>	<u>Unfunded AAL (UAAL) (Funding Excess)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL (Funding Excess) as a % of Payroll</u>
School Division Plan - Non-Professional						
June 30, 2000	\$ 4,876,776	\$ 4,797,873	\$ (78,903)	101.64%	\$ 4,825,161	-1.64%
June 30, 2001	\$ 5,929,049	\$ 5,881,679	\$ (47,370)	100.81%	\$ 5,349,983	-0.89%
June 30, 2002	\$ 6,664,536	\$ 6,788,354	\$ 123,818	98.18%	\$ 5,635,990	2.20%
June 30, 2003	\$ 7,460,867	\$ 7,724,877	\$ 264,010	96.58%	\$ 6,032,108	4.38%
Optional Plan						
June 30, 1998	\$ 2,482,450	\$ 2,560,686	\$ 78,236	96.94%	\$ -	N/A
June 30, 1999	\$ 1,168,859	\$ 1,590,888	\$ 422,029	73.47%	\$ -	N/A
June 30, 2000	\$ 1,106,125	\$ 1,603,196	\$ 497,071	68.99%	\$ -	N/A
June 30, 2001	\$ 981,289	\$ 1,631,198	\$ 649,909	60.16%	\$ -	N/A
June 30, 2002	\$ 725,405	\$ 1,726,804	\$ 1,001,399	42.01%	\$ -	N/A
June 30, 2003	\$ 1,010,494	\$ 1,765,392	\$ 754,898	57.24%	\$ -	N/A
June 30, 2004	\$ 1,078,623	\$ 1,812,950	\$ 736,239	59.50%	\$ -	N/A

THE YORK COUNTY SCHOOL DIVISION

COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

1. BUDGETARY DATA

The School Division follows these procedures in establishing the budgetary data reflected in the combined financial statements:

As required under Section 22.1-92 of the *Code of Virginia*, the Division Superintendent prepares an estimate of the amount of money deemed to be needed in the General Fund, Special Revenue Fund and Capital Projects Fund during the next fiscal year for the support of the public schools of the School Division. The estimate is required to be allocated for each major classification prescribed by the State Division of Education. Section 22.1-115 of the *Code of Virginia* states "the Division shall prescribe the following major classifications for expenditures of school funds: (i) instruction, (ii) administration, attendance and health (iii) pupil transportation, (iv) operation and maintenance, (v) school food services and other non-instructional operations, (vi) facilities, and (vii) debt and fund transfers."

The Superintendent's proposed budget is based on budget requests prepared by administrative and supervisory staff. The Superintendent also receives input from the School Division, employee associations, Parent Teacher Associations, County Administrator, etc., in formulating the budget proposal. Citizen input is provided via a public forum early in the budget process. After the Superintendent's budget is made public, the School Division conducts a public hearing on the proposed budget.

The School Division is required by state law (Section 22.1-92 of the *Code of Virginia*) to conduct a public hearing on the proposed budget to receive the views of citizens. The School Division also holds several work sessions on the proposed budget and modifies the proposed budget if necessary. The School Division must approve the budget by April 1 and submit it to the Division of Supervisors for the County of York for its approval.

The Board of Supervisors is required by state law to approve a School Division budget by May 1. If the Board of Supervisors approves a local appropriation that is less than the amount the School Division requested, the School Division must reduce the proposed budget accordingly.

1. BUDGETARY DATA *(Continued)*

The School Division appropriates funds on a major classification level and may make supplemental appropriations based on the availability of financial resources. The Division Superintendent may only authorize the transfer of funds within the major classification, the legal level of budgetary control.

Every appropriation lapses at the close of the fiscal year to the extent that it has not been expended. Funding for projects such as the capital improvement program is reappropriated annually until the project has been accomplished or abandoned.

The budgets are prepared on a basis consistent with the modified accrual basis of accounting. Budgeted amounts reflected in the required supplementary information are as originally adopted or as amended by the School Division.

2. LEGALLY ADOPTED BUDGETS

The general, capital projects, and special revenue funds have legally adopted annual budgets.

OTHER SUPPLEMENTARY INFORMATION

The York County School Division

Schedule of Revenues and Expenditures Budget and Actual - Capital Projects Year Ended June 30, 2004

	<u>Capital Projects Fund</u>		Variance With Final Positive (Negative)
	<u>Final Budget</u>	<u>Actual</u>	
Revenues			
Intergovernmental:			
From the County of York	\$ 5,052,462	\$ 5,052,462	\$ -
From the Commonwealth of Virginia	1,128,800	1,132,222	3,422
From the Federal Government	491,000	491,619	619
Revenue from the use of money	100,000	27,702	(72,298)
Miscellaneous	-	400	400
Total revenues	<u>\$ 6,772,262</u>	<u>\$ 6,704,405</u>	<u>\$ (67,857)</u>
Expenditures			
Capital outlay	\$ 10,225,896	\$ 8,138,698	\$ 2,087,198
Total expenditures	<u>\$ 10,225,896</u>	<u>\$ 8,138,698</u>	<u>\$ 2,087,198</u>

The York County School Division
Schedule of Revenues and Expenditures
Budget and Actual - Non-major Special
Revenue Funds
Year Ended June 30, 2004

	School Food Service Funds			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
From the County of York	\$ -	\$ -	\$ 1,083	\$ 1,083
From the Commonwealth of Virginia	55,000	55,000	51,053	(3,947)
From the Federal Government	880,000	880,000	859,717	(20,283)
Revenue from the use of money	25,000	25,000	5,173	(19,827)
Charges for services	2,125,806	2,475,806	2,268,203	(207,603)
Total revenues	\$ 3,085,806	\$ 3,435,806	\$ 3,185,229	\$ (251,660)
Expenditures				
Food Services:				
Contractual services and purchases for resale	\$ 1,103,806	\$ 1,453,806	\$ 1,683,093	\$ (229,287)
Donated commodities	200,000	200,000	172,852	27,148
Salaries and wages	1,194,811	1,194,811	1,101,549	93,262
Fringe benefits	387,581	387,581	377,154	10,427
Repairs and maintenance	29,608	29,608	11,222	18,386
Materials and supplies	150,000	150,000	41,429	108,571
Equipment replacement	10,000	10,000	10,888	(888)
Employee development	5,000	5,000	3,632	1,368
Travel	5,000	5,000	3,774	1,226
School carryover	-	10,471	10,471	-
Total expenditures	\$ 3,085,806	\$ 3,446,277	\$ 3,416,064	\$ 30,213

THE YORK COUNTY SCHOOL DIVISION

**COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
AGENCY FUND - SCHOOL ACTIVITY FUNDS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**

Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Assets				
Cash and temporary investments	\$ 1,170,115	\$ 5,189,939	\$ 5,086,597	\$ 1,273,457
Liabilities				
Amounts held for others	\$ 1,170,115	\$ 5,189,939	\$ 5,086,597	\$ 1,273,457

STATISTICAL SECTION

(Unaudited)

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
GENERAL FUND REVENUES BY SOURCE**

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>County of York</u>	<u>Commonwealth of Virginia</u>	<u>Federal Government</u>	<u>Miscellaneous</u>	<u>Total</u>
2004	\$ 30,755,430	\$ 42,408,659	\$ 10,620,617	\$ 1,219,533	\$ 85,004,239
2003	\$ 27,385,364	\$ 41,738,660	\$ 10,369,003	\$ 1,085,567	\$ 80,578,594
2002	\$ 28,136,796	\$ 38,736,624	\$ 9,221,393	\$ 1,170,061	\$ 77,264,874
2001	\$ 26,883,868	\$ 37,512,014	\$ 8,838,647	\$ 1,142,285	\$ 74,376,814
2000	\$ 25,225,802	\$ 34,874,235	\$ 8,182,836	\$ 1,133,802	\$ 69,416,675
1999	\$ 27,557,879	\$ 32,478,758	\$ 8,215,508	\$ 1,007,528	\$ 69,259,673
1998	\$ 21,722,006	\$ 30,868,785	\$ 7,016,814	\$ 851,783	\$ 60,459,388
1997	\$ 20,775,293	\$ 29,353,453	\$ 5,308,653	\$ 905,136	\$ 56,342,535
1996	\$ 17,765,708	\$ 26,781,895	\$ 7,371,165	\$ 645,265	\$ 52,564,033
1995	\$ 16,544,105	\$ 25,878,217	\$ 5,483,200	\$ 837,921	\$ 48,743,443

Source : York County School Division
Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
GENERAL FUND EXPENDITURES BY FUNCTION**

Last Ten Fiscal Years

Fiscal Year	Instruction	Administration Attendance and Health Services	Pupil Transportation	Operations and Maintenance	Debt Service	Intergover- mental (1)	Total
2004	\$ 64,156,077	\$ 5,907,512	\$ 5,101,840	\$ 10,111,467	\$ 115,933	\$ -	\$ 85,392,829
2003	\$ 60,385,900	\$ 5,429,175	\$ 4,858,132	\$ 8,950,532	\$ 120,975	\$ -	\$ 79,744,714
2002	\$ 56,268,252	\$ 4,705,618	\$ 3,961,244	\$ 8,022,027	\$ 125,983	\$ 2,201,511	\$ 75,284,635
2001	\$ 55,176,078	\$ 4,250,250	\$ 4,672,831	\$ 7,673,108	\$ 131,128	\$ 2,049,741	\$ 73,953,136
2000	\$ 52,292,947	\$ 3,763,534	\$ 3,583,816	\$ 6,958,758	\$ 135,967	\$ 2,718,753	\$ 69,453,775
1999	\$ 47,244,857	\$ 3,271,627	\$ 3,140,159	\$ 6,953,359	\$ 4,116,037	\$ 3,393,761	\$ 68,119,800
1998	\$ 44,112,068	\$ 2,637,881	\$ 3,245,285	\$ 7,712,139	\$ 973,750	\$ 2,922,381	\$ 61,603,504
1997	\$ 41,676,475	\$ 2,344,082	\$ 3,033,129	\$ 6,590,868	\$ 1,072,838	\$ 1,084,368	\$ 55,801,760
1996	\$ 37,921,721	\$ 1,930,876	\$ 2,324,950	\$ 6,152,276	\$ 688,947	\$ 3,546,938	\$ 52,565,708
1995	\$ 36,857,799	\$ 1,818,153	\$ 2,099,639	\$ 5,901,728	\$ 443,018	\$ 776,514	\$ 47,896,851

Source : York County School Division
Comprehensive Annual Financial Reports Fiscal Years 1995-2004

Note (1): 2003 conversion to GASB34 allocated intergovernmental expenditures directly to the individual functions

**THE YORK COUNTY SCHOOL DIVISION
 COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
 GOVERNMENT-WIDE REVENUES BY SOURCE**

Last Two Fiscal Years

<u>Fiscal Year</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>County of York</u>	<u>Intergovernmental Revenues</u>	<u>Revenues from the Use of Money and Property</u>	<u>Miscellaneous</u>	<u>Total</u>
2004	\$ 2,779,913	\$ 46,002,007	\$ 1,623,841	\$ 35,808,975	\$ 7,940,139	\$ 512,158	\$ 226,840	\$ 94,893,873
2003	\$ 2,427,724	\$ 45,670,293	\$ 1,188,266	\$ 37,698,293	\$ 7,291,952	\$ 580,480	\$ 124,877	\$ 94,981,885

Source : York County School Division

Note : The York County School Division implemented GASB 34 in Fiscal Year 2003

**THE YORK COUNTY SCHOOL DIVISION
 COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
 GOVERNMENT-WIDE EXPENSES BY FUNCTION**

Last Two Fiscal Years

<u>Fiscal Year</u>	<u>Instruction</u>	<u>Administration Attendance and Health Services</u>	<u>Pupil Transportation</u>	<u>Operations and Maintenance</u>	<u>Food Services</u>	<u>Interest on Capital Leases</u>	<u>Capital Projects</u>	<u>Total</u>
2004	\$ 67,771,930	\$ 5,837,793	\$ 4,968,615	\$ 10,145,537	\$ 3,455,830	\$ 18,933	\$ 4,589,948	\$ 96,788,586
2003	\$ 60,683,276	\$ 5,564,214	\$ 4,534,200	\$ 9,129,334	\$ 2,620,622	\$ 23,975	\$ 2,782,478	\$ 85,338,099

Source : York County School Division

Note : The York County School Division implemented GASB 34 in Fiscal Year 2003

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS FOR THE COUNTY OF YORK, VIRGINIA**

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (2)	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections To Tax Levy	Outstanding Delinquent Taxes	Percent of Total Tax Collections To Tax Levy
2004	\$ 60,823,449	\$ 58,099,636	95.52%	\$ 1,997,221	\$ 60,096,857	98.81%	\$ 4,915,038	8.08%
2003	\$ 57,471,361	\$ 55,134,210	95.93%	\$ 1,403,411	\$ 56,537,621	98.38%	\$ 4,014,605	6.99%
2002	\$ 53,335,585	\$ 51,353,839	96.28%	\$ 1,632,225	\$ 52,986,064	99.34%	\$ 3,490,959	6.55%
2001	\$ 50,512,862	\$ 48,624,757	96.26%	\$ 1,596,750	\$ 50,221,507	99.42%	\$ 3,287,898	6.51%
2000	\$ 47,039,600	\$ 44,889,391	95.43%	\$ 1,727,377	\$ 46,616,768	99.10%	\$ 3,328,419	7.08%
1999	\$ 44,071,970	\$ 42,685,249	96.85%	\$ 1,204,501	\$ 43,889,750	99.59%	\$ 2,344,220	5.32%
1998	\$ 46,709,768	\$ 45,569,100	97.56%	\$ 1,324,031	\$ 46,893,131	100.39%	\$ 1,903,637	4.08%
1997	\$ 38,420,788	\$ 37,802,304	98.39%	\$ 819,519	\$ 38,621,823	100.52%	\$ 1,371,253	3.57%
1996	\$ 35,805,245	\$ 35,098,834	98.03%	\$ 789,877	\$ 35,888,711	100.23%	\$ 1,648,828	4.60%
1995	\$ 45,247,422	\$ 44,446,158	98.23%	\$ 412,274	\$ 44,858,432	99.14%	\$ 1,411,013	3.12%

(1) - Effective 1995, the County implemented twice a year real estate tax collections. Total tax levy though June 30, 1995 was \$13,214,104
Effective 1998, the County implemented twice a year personal property tax collections. Total tax levy through June 30, 1998. Was \$ 5,835,850

(2) - Includes the Commonwealth's reimbursement from the Personal Property Tax Relief Act (Virginia State Code, Title 58.1, Chapter 35).

(3) - Fiscal Years 1999 and 2000, the Total Tax Levy was restated from previous years reported assessments.

Source :County of York, Virginia
Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
 COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
 ASSESSED VALUE OF TAXABLE PROPERTY FOR THE COUNTY OF YORK, VIRGINIA**

Last Ten Fiscal Years

Fiscal Year	Public Utility			Real Estate	Personal Property	CPC Equipment	Total	Ratio of Total Assessed to Total Estimated Actual Value
	Real Estate	Personal Property	Mobile Home					
2004	\$ 5,177,858,100	\$ 389,936,240	\$ 4,048,700	\$ 311,750,291	\$ 103,116	\$ 83,427,310	\$ 5,967,123,757	100.00%
2003	\$ 4,332,695,900	\$ 372,586,710	\$ 4,483,220	\$ 383,517,402	\$ 81,725	\$ 47,572,000	\$ 5,140,936,957	100.00%
2002	\$ 4,164,948,589	\$ 357,154,465	\$ 5,499,500	\$ 373,094,854	\$ 67,399	\$ 45,232,394	\$ 4,945,997,201	100.00%
2001	\$ 3,731,519,800	\$ 341,671,410	\$ 5,499,500	\$ 396,014,109	\$ 75,058	\$ 48,741,804	\$ 4,523,521,681	100.00%
2000	\$ 3,593,618,963	\$ 343,064,595	\$ 4,977,800	\$ 384,314,309	\$ 76,790	\$ 45,963,521	\$ 4,372,015,978	100.00%
1999	\$ 3,290,329,596	\$ 283,997,377	\$ 4,308,423	\$ 405,887,634	\$ 72,600	\$ 47,599,984	\$ 4,032,195,614	100.00%
1998	\$ 3,145,948,869	\$ 265,019,266	\$ 3,660,950	\$ 396,069,366	\$ 90,318	\$ 45,779,343	\$ 3,856,568,112	100.00%
1997	\$ 2,971,921,465	\$ 208,420,993	\$ 3,269,862	\$ 398,953,489	\$ 105,708	\$ 47,014,196	\$ 3,629,685,713	100.00%
1996	\$ 2,785,964,680	\$ 186,093,039	\$ 3,651,754	\$ 408,445,317	\$ 101,547	\$ 44,838,830	\$ 3,429,095,167	100.00%
1995	\$ 2,681,172,452	\$ 176,178,679	\$ 3,398,795	\$ 409,789,142	\$ 114,670	\$ 46,392,496	\$ 3,317,046,234	100.00%

Source :County of York, Virginia
 Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
PROPERTY TAX RATES OF THE COUNTY OF YORK, VIRGINIA**

Last Ten Fiscal Years

Fiscal Year	Real Estate (1) (2) (3)	Personal Property (1)	Mobile Home (1) (3)	CPC Equipment (1) (3)
2004	0.86/.8175	4.00	0.86/.8175	0.688/0.654
2003	0.860	4.00	0.860	0.69
2002	0.860	4.00	0.860	0.69
2001	0.860	4.00	0.860	0.69
2000	0.860	4.00	0.860	0.69
1999	0.860	4.00	0.860	0.69
1998	0.860	4.00	0.860	0.69
1997	0.860	4.00	0.860	0.69
1996	0.860	4.00	0.860	0.69
1995	0.860	4.00	0.860	0.69

(1) Tax rate per \$100 of assessed valuation.

(2) The amount designated for school operating is \$.637 for fiscal year 2004.

(3) The tax rate, 1st half/2nd half

Note: The County has no overlapping taxes with other governments.

Source :County of York, Virginia

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
ASSESSED VALUE OF TAXABLE PROPERTY FOR THE COUNTY OF YORK, VIRGINIA**

Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value	Gross Bonded Debt	Debt Service Monies Available	Less Debt Payable From			Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
					Enterprise Fund Revenue Bonds	Enterprise Fund Advance Refunding Bonds	Enterprise Fund General Obligation Bonds			
2004	62,300	\$ 5,967,123,757	\$ 74,920,721	\$ -	\$ 9,310,721	\$ -	\$ -	\$ 65,610,000	0.0110	1053
2003	61,000	\$ 5,140,936,957	\$ 57,484,287	\$ -	\$ 9,484,287	\$ -	\$ -	\$ 48,000,000	0.0093	787
2002	59,400	\$ 4,945,997,201	\$ 53,102,440	\$ 703	\$ 9,652,440	\$ -	\$ 69,600	\$ 43,379,697	0.0088	730
2001	58,500	\$ 4,523,521,681	\$ 52,610,900	\$ 1,119	\$ 9,810,200	\$ -	\$ 142,100	\$ 42,657,481	0.0094	729
2000	56,297	\$ 4,372,015,978	\$ 55,608,186	\$ 1,083	\$ 9,962,586	\$ -	\$ 217,500	\$ 45,427,017	0.0104	807
1999	55,600	\$ 4,032,195,614	\$ 49,552,066	\$ 531,706	\$ 569,616	\$ -	\$ 295,800	\$ 48,154,944	0.0119	866
1998	54,400	\$ 3,856,568,112	\$ 52,763,107	\$ 977,413	\$ 576,307	\$ -	\$ 359,600	\$ 50,849,787	0.0132	935
1997	53,300	\$ 3,629,685,713	\$ 40,734,476	\$ 994,931	\$ 582,676	\$ 410,000	\$ 426,300	\$ 38,320,569	0.0106	719
1996	52,100	\$ 3,429,095,167	\$ 43,960,538	\$ 948,226	\$ 588,738	\$ 800,000	\$ 495,900	\$ 41,127,674	0.0120	789
1995	50,600	\$ 3,317,046,234	\$ 47,146,308	\$ 901,283	\$ 594,508	\$ 1,165,000	\$ 565,500	\$ 43,920,017	0.0132	868

(1) County of York-Planning Division, except for fiscal year 2000 - U.S. Department of Commerce, Bureau of the Census

(2) The County has no overlapping debt.

(3) The County's revenue bonds are also pledged against the full faith and credit of the Sanitary District and contain no specific revenue bond covenants

Source :County of York, Virginia
Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
 COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
 RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO
 TOTAL GENERAL EXPENDITURES FOR THE COUNTY OF YORK, VIRGINIA**

Last Ten Fiscal Years

Fiscal Year	Primary Government		Component Unit - School Board		Total Debt Service	Total General Expenditures	Ratio of Service to Expenditures
	Principal	Interest	Principal	Interest			
2004	810,000	\$ 531,873	\$ 2,835,000	\$ 2,270,155	\$ 6,447,028	\$ 178,657,862	3.6%
2003	515,400	\$ 160,139	\$ 2,580,000	\$ 1,987,837	\$ 5,243,376	\$ 169,617,600	3.1%
2002	207,500	\$ 57,008	\$ 2,600,700	\$ 1,969,637	\$ 4,834,845	\$ 124,338,675	3.9%
2001	214,600	\$ 57,008	\$ 2,554,900	\$ 2,388,227	\$ 5,214,735	\$ 120,242,156	4.3%
2000	681,700	\$ 79,456	\$ 2,711,806	\$ 2,787,844	\$ 6,260,806	\$ 111,812,012	5.6%
1999	646,200	\$ 113,607	\$ 2,494,350	\$ 2,784,329	\$ 6,038,486	\$ 107,584,760	5.6%
1998	218,300	\$ 134,052	\$ 2,270,000	\$ 2,036,329	\$ 4,658,681	\$ 97,909,169	4.8%
1997	220,400	\$ 142,201	\$ 2,540,000	\$ 2,166,603	\$ 5,069,204	\$ 91,364,655	5.5%
1996	225,400	\$ 151,893	\$ 2,520,000	\$ 2,301,854	\$ 5,199,147	\$ 84,957,001	6.1%
1995	227,500	\$ 163,531	\$ 1,790,000	\$ 1,756,961	\$ 3,937,992	\$ 79,490,740	5.0%

(1) Includes General, Special Revenue and Debt Service Funds from the Primary Government and the School Operating and Food Service Funds from the Component Unit

Source :County of York, Virginia
 Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
DEMOGRAPHIC STATISTICS FOR THE COUNTY OF YORK, VIRGINIA**

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (2)</u>	<u>Per Capita Income (1)</u>	<u>Unemployment Rate (3)</u>
2004	62,300	34,340.00	2.3%
2003	61,000	31,400.00	2.5%
2002	59,400	30,700.00	2.6%
2001	58,500	27,900.00	1.8%
2000	56,297	27,030.00	2.2%
1999	55,600	25,922.00	2.1%
1998	54,400	24,970.00	2.5%
1997	53,300	23,792.00	3.5%
1996	52,100	22,491.00	3.5%
1995	50,600	22,057.00	3.2%

- (1) Represents the combined Per Capita Income for the County of York and the City of Poquoson. County of York - Department of Financial & Management Services for the fiscal years 2002-2003. U.S. Bureau of Economic Analysis for 1994-2001.
- (2) County of York - Planning Division, except for Fiscal year 2000 - U.S. Department of Commerce, Bureau of the Census.
- (3) Virginia Employment Commission

Source :County of York, Virginia
Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
BANK DEPOSITS, RESIDENTIAL AND COMMERCIAL CONSTRUCTION
FOR THE COUNTY OF YORK, VIRGINIA**

Last Ten Calendar Years

Calendar Year	Bank Deposits (2)	Building Permits (1)			
		Residential		Commercial and Industrial	
		Number	Value	Number	Value
2004	\$ -	5,979	\$ 96,294,361	\$ 4,541	\$ 61,825,886
2003	\$ 374,000,000	8,979	\$ 117,627,859	\$ 131	\$ 19,775,459
2002	\$ 300,025,000	5,260	\$ 101,825,775	\$ 101	\$ 22,541,983
2001	\$ 270,828,000	6,103	\$ 92,124,207	\$ 95	\$ 10,048,969
2000	\$ 275,632,000	6,674	\$ 106,765,134	\$ 170	\$ 23,427,493
1999	\$ 266,821,000	6,293	\$ 87,076,997	\$ 157	\$ 18,818,125
1998	\$ 208,665,000	4,802	\$ 68,916,103	\$ 146	\$ 46,445,956
1997	\$ 245,123,000	4,760	\$ 57,812,405	\$ 106	\$ 11,187,358
1996	\$ 230,845,000	4,827	\$ 59,565,886	\$ 83	\$ 13,914,590
1995	\$ 262,240,000	5,354	\$ 69,070,466	\$ 100	\$ 35,056,900

(1) Building Regulation Division

(2) Bank Deposits for 2004 are not available.
Source; Federal Deposit Insurance Corporation

Note: Commercial and industrial components of total assessed real property could not be determined individually. For total value, see Assessed Value of Taxable Property.

Source : County of York, Virginia
Comprehensive Annual Financial Reports Fiscal Years 1995-2004

**THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
PRINCIPAL PROPERTY TAXPAYERS FOR THE COUNTY OF YORK, VIRGINIA**

June 30, 2004

Taxpayer	Description	2003 Assessed Valuation	Total Tax	Percentage of Total Assessed Valuation
Virginia Power Company	Generating Plant	\$ 282,906,518	\$ 2,289,501	3.96%
Giant Industries	Refinery	\$ 82,489,510	\$ 1,590,048	2.75%
Lawyers Title Insurance Co./Fairfield Communities	Fairfield Condominiums	\$ 98,432,000	\$ 846,515	1.47%
City of Newport News	Water System	\$ 73,153,300	\$ 629,118	1.09%
Anheuser Busch Companies	Busch properties	\$ 43,779,515	\$ 405,747	0.70%
Philip Morris Inc.	Manufacturer	\$ 14,560,025	\$ 299,980	0.52%
Wal Mary	Retail Sales	\$ 28,683,040	\$ 288,946	0.50%
Kings Creek Plantation	Timeshare Condominiums	\$ 24,258,195	\$ 211,700	0.37%
Verizon Virginia Inc.	Telephone Company	\$ 22,473,915	\$ 193,374	0.33%
Kiln Creek Shopping Center	Retail Sales	\$ 21,724,000	\$ 186,826	0.32%
Total		\$ 692,460,018	\$ 6,941,755	12.01%

Source : County of York, Virginia
Commissioner of Revenue of the County of York, Virginia

THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
 Miscellaneous Statistical Data

June 30, 2004

	ADM(1)	ADA(2)	% of ADM
Bethel Manor Elementary	593	570	96.1%
Coventry Elementary	685	664	96.9%
Dare Elementary	373	359	96.2%
Grafton Bethel Elementary	646	622	96.3%
Magruder Elementary	512	488	95.3%
Mt. Vernon Elementary	499	485	97.2%
Seaford Elementary	490	473	96.5%
Tabb Elementary	628	605	96.3%
Waller Mill Elementary	278	267	96.0%
Yorktown Elementary	495	475	96.0%
Grafton Middle	956	623	65.2%
Queens Lake Middle	478	457	95.6%
Tabb Middle	985	952	96.6%
Yorktown Middle	656	631	96.2%
Bruton High	660	629	95.3%
Grafton High	1,246	1,199	96.2%
Tabb High	1,207	1,162	96.3%
York High	935	891	95.3%
York River Academy	41	39	94.6%
	<u>12,363</u>	<u>11,591</u>	93.8%

(1) Average Daily Membership (unadjusted) By School (2004-2005)

(2) Average Daily Attendance

THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Miscellaneous Statistical Data

June 30, 2004

Full Time Equivalents by Position:

Board Members	5.00
Bus Drivers	128.00
Bus Driver Assistants	21.00
Cafeteria Monitors	3.00
Chief Financial Officer	1.00
Clerical	66.25
Clerk of the Board	1.00
Clinic Aides	2.00
Crossing Guards	3.50
Custodians	85.80
Directors	8.75
Food Service Personnel	95.00
Guidance Counselors	33.00
Instructors	10.00
Librarians	18.00
Mechanics	7.00
Nurses	16.00
Occupational Therapists	3.00
Physical Therapists	1.00
Principals	20.00
Principals (Assistants)	22.00
Psychologists	10.00
Superintendent	1.00
Superintendent (Deputy)	1.00
Superintendent (Assistant)	1.00
Teachers	799.97
Teacher Assistants	244.93
Technical	94.57
Trades	23.00
Total Full Time Equivalents	<u>1,725.77</u>

THE YORK COUNTY SCHOOL DIVISION
COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
 Miscellaneous Statistical Data

June 30, 2004

<u>Fiscal Year</u>	<u>School Facilities</u>	<u>Student Average Daily Membership</u>
1995	16	10,707
1996	16	10,746
1997	18	10,884
1998	18	11,159
1999	18	11,434
2000	18	11,654
2001	18	11,750
2002	18	12,010
2003	19 *	12,184
2004	19 *	12,363

* Includes York River Academy Charter School

Description	Surety Bond Coverage
School Division employee honesty bond	<u>\$1,000,000</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPLIANCE SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



***Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

**Members of the School Division
York County School Division**

We have audited the basic financial statements of the York County School Division, a component unit of the County of York, Virginia, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the York County School Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the York County School Division's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of York County School Division, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Berkert & Hallard, LLP

Richmond, Virginia
September 24, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS,
CONTRACTS AND GRANTS**

Members of the School Division
York County School Division

We have audited the basic financial statements of the York County School Division, a component unit of the County of York, Virginia, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the York County School Division's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

<u>Code of Virginia</u>		<u>State Agency Requirements</u>
Budget and Appropriation Laws	Retirement	Education
Cash and Investments	Procurement	
Conflicts of Interest	Unclaimed Property	

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph.

This report is intended solely for the information of the York County School Division, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beckett & Hall, LLP

Richmond, Virginia
September 24, 2004

THIS PAGE LEFT BLANK INTENTIONALLY